

Nation's Business[®]

The Small Business Adviser

Published by U.S. Chamber of Commerce

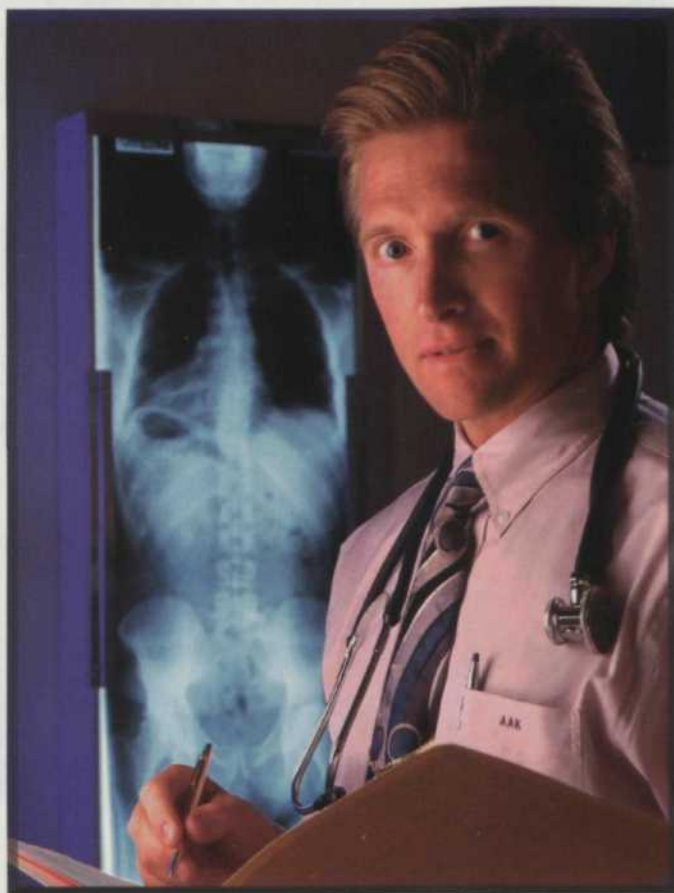
**How Owners Should
Set Their Salaries**

**When An Industry
Buyout Firm Calls**

**Coping With Cupid
In The Workplace**

The Managed-Care Backlash

***H**health-insurance
proposals in Washington
could have costly
consequences for employers
and employees.*



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PHOTO: MICHAEL GREENLAR

Machine-parts manufacturer Robert Stephens is one of many small-business owners concerned that proposed federal mandates on managed-care health plans will cause premium increases that will push coverage beyond the reach of some workers. Cover Story, Page 16.



PHOTO: EDON STEVENSON

Focusing on customer service, Joseph Wojcik built a multimillion-dollar camera-repair business. Making It, Page 74.

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PHOTO: ©BARK JOHNSON

Business owner Martha J. Williams is one of many minority women thriving in nontraditional fields. *Enterprise*, Page 47.

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Congress Is At It Again



The health-care revolution sparked by the move to managed care has affected many Americans. In some instances, the impact has been negative, at least when it comes to receiving medical services.

But proposals in Congress, many of which are a result of the public outcry against managed care, could make things worse.

This month's cover story, written by Senior Associate Editor Steve Blakely, is devoted to this critical issue. Employers need to be well-informed about the direction in which Congress is heading if they want to keep their employees and themselves from getting burned.

Don't miss this story of vital importance to any business owner who offers health insurance and to anyone who relies on, or may someday need, health-care services. The story begins on Page 16.

Many business owners make tough choices in establishing their salaries. But how can they know if they've made the best decisions for their companies and themselves? See "Setting The Size Of Your Paycheck," beginning on Page 30.



Nation's Business just launched its site on the World Wide Web. This upbeat new resource is designed to help readers find information about the magazine, and some of the topics it covers, in a hurry. The site is the result of a great deal of work by our marketing director, Janine Grossman (at left in the photo), and our associate promotion manager, Kristin Eckhardt (right). I and

many others at *Nation's Business* are extremely grateful for their efforts. We hope you'll visit us online at www.nbmag.com and let us know how we can make our Internet site even more useful to you.

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation's Business



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Letters

Seeking Major Changes In The Tax System


 I read "Can The IRS Be Fixed?" [Cover Story, May] with great interest. As the owner of a five-year-old small business that is growing at a fast pace and wrestling with cash-flow issues on a daily basis, I find it appalling that we, the taxpayers, spend \$7.35 billion a year to fund the Internal Revenue Service.

Why not go to a flat-tax program, under which individuals and businesses would pay a flat percentage of income or profit as tax to the government?

With a flat tax, the IRS budget could be reduced to hundreds of millions of dollars instead of billions, and the amount of money spent on CPAs and tax lawyers could be cut drastically.

The government is strangling small businesses and individuals with high tax rates. It's time for some radical changes and a reduction in taxes across the board. *James L. Wade, President Austin Info Systems, Inc. Austin, Texas*

The Complex Tax Code

 I was pleased to see the headline "Can The IRS Be Fixed?" on the cover of my May *Nation's Business*. However, I was disappointed with the article.

It is true that the Internal Revenue Service has been correctly identified as an out-of-control agency that follows the motto that people are "guilty until proven innocent." The same is true for many other federal agencies.


What separates the IRS from these other agencies—and what was missed by your article—is a problem that can't be corrected by retraining employees: The IRS code is so lengthy and so complex that it can't be understood by taxpayers, IRS employees, or anyone else.

Making the IRS more friendly will not fix the problem. As long as we have a 7 million-word tax code, no one will ever

understand it, let alone be able to enforce it fairly.

W.H. Richards, Owner R Tex Outdoor Power Terrell, Texas

IRS Set In Its Ways?


 "Can The IRS Be Fixed?" clearly discussed what is wrong with the Internal Revenue Service, and the hopes for the agency's future. The IRS has been without direction and out of touch with the real world for too long.

Commissioner Charles O. Rossotti's vision for modernizing the IRS will go a long way toward improving tax administration and taxpayer relations. Besides re-engineering the agency, however, his attention needs to be directed toward the IRS's culture. I'm concerned that this culture is too deeply entrenched for any meaningful change in the near future.

Neiland Cohen Milwaukee



Seeing The Good Points

 I was disappointed in your review of "Can The IRS Be Fixed?"


Like politicians, the article took isolated examples of IRS inefficiency and portrayed them as commonplace. This can only help create unjustified negative public opinion about an essential national service: tax administration and collection.

Of course, by the nature of its activity, the IRS is not popular. But in my experience—both personal and in business—and in the opinions of many of my colleagues, the IRS is competent, polite, and fair. Any large organization will have some inadequacies.

The real tax culprits are politicians and Congress, which have created the complex system that the IRS administers. The article should have devoted more attention to that point.

Raymond C. Malley, Chairman Halla America, Inc. Moonachie, N.J.

Defining The Best Way To Make Hiring Decisions

 I was disconcerted to read the results of your March Where I Stand poll, which were published in the May issue.

The respondents indicated that their

at-ti-tude \at-ə-(y)üd\ *n* [t-aptitude, fr. LL *aptitudin-*, *aptitudo*]
1: the arrangement of the parts
a: a mental position with regard to
 or emotion toward a fact or situation

biggest problem with job applicants was "attitude and work habits."


Attitude, according to my *Webster's New World Dictionary of the American Language*, is: 1) a bodily posture showing mood, action, etc.; 2) a manner showing one's feelings or thoughts; 3) one's disposition, opinion, etc.

In other words, attitude is a completely subjective judgment involving the other person's thoughts or beliefs.

Judging a person by his or her attitude is asking for a lawsuit, particularly if the person is in a class protected by antidiscrimination law. It is better to make hiring decisions based on objective, observable criteria, such as the individual's education, job history, and perceptible behavior—not on attitude.

Tom Bell
 Aurora, Colo.

Who Is 'Anti-Worker'? Try The Government

 I was interested to read the letter to the editor in the June issue from John Knoff of the Chicago Lawyers' Committee for Civil Rights Under Law, who described *Nation's Business* as being "anti-worker." My response is to direct his attention to the real "anti-worker" institution: the federal government.

When I started my business nine years ago as a sole proprietor, I quickly found out how badly the government penalizes anyone trying to make a decent—i.e., subsistence—living.

After paying my Social Security, Medicare, self-employment, and federal and state income taxes, my wife and I could finally use my \$10,000 income for the first year to splurge on food and housing. Three years later I made the whopping total of \$43,000 gross income, at which point—after working 80-hour weeks without a vacation in those three years—I reluctantly added an employee.

I quickly realized that I was to become


the employee's "mother," legally required to pay workers' compensation, unemployment, and disability insurance for him, on top of the payroll tax. I even covered his health-plan premiums, which, unlike my contributions, were fully deductible.

Of course, I had to make sure that my customers all paid me promptly so I could be sure to pay my employee on time, even if it meant that I had to skip paying myself for a week or two.

I'm sure that most employers have similar stories to tell. The time is long overdue for us to get the government and special-interest groups off our backs. I for one am glad that *Nation's Business* is around, if only to balance the one-sided socialist litany of the "mainstream" press.

Scott Grimshaw, President
 Cold Springs R&D, Inc.
 Marcellus, N.Y.

Employing The Disabled Has Specific Advantages

 Your June issue had two excellent articles about people with disabilities and their inclusion in society ["A Phone Link To The Deaf" and "An Enabling Work Force"].


An increasing number of companies are recognizing the value of marketing to and employing people with disabilities, who have many contributions to make in many roles in society.



Employers might be interested to know that when a local community rehabilitation program (CRP) refers a potential employee to them, they get far more information in terms of the person's abilities and limitations than they would with a person hired off the street. Often, the CRP will provide a trainer at no cost to the employer, and there are federal tax advantages to employers as well.

In short, there are several business reasons for employers to do the correct thing—that is, to match a person's abilities to the requirements of the job.

Bryan Dodson, President
 Huntsville Rehabilitation
 Foundation, Inc.
 Huntsville, Ala.

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How Do I...



Solve an IRS problem?



Manage my workers in times of change?



Come to grips with growth?



Prepare for the purchase of a franchise?



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ENTREPRENEUR'S NOTEBOOK

By Martin Plaehn

A Web Strategy With Real Bite

At Viewpoint DataLabs, we know more than a little about monsters. For instance, there's the Godzilla model we created for big-screen animation in this summer's megabudget movie about the giant reptile.

Then there's the electronic-commerce monster unleashed by the Internet. Unlike our fictional Godzilla, e-commerce is a real force. You can either harness it as an integral part of your business or get squashed by it as your competition figures out how to put it to work.

An Internet strategy is not merely having an online presence. It has to be central to your daily business operation.

At Viewpoint DataLabs, we're a leader in creation of 3-D models used in communications, advertising, video games, and movies. Our clients bring these models to life through computer animation. Viewpoint's work has been featured in recent films, including "Titanic," "Independence Day," and "Air Force One." We created the dancing baby in the Blockbuster ads and the photorealistic 3-D computer models of the Brooklyn Bridge and a New York City taxicab used at the climactic end of "Godzilla."

We have come to recognize the Internet as the marketplace for doing business in the future. To that end, we have made electronic commerce via our World Wide Web site, www.viewpoint.com, central to how we do business. Our customers have access to more than 10,000 models in Viewpoint's online archive.

The challenge with e-commerce is to make it fit in with your existing business.

When you launch a Web site, it's important to pay close attention to relationships with your current sales force and distributors. Don't let your Web presence send a message that you are pursuing only direct Internet sales at their expense. Such a perception might shift their view of you from partner and supplier to competitor. That

Martin Plaehn is chief executive officer of Viewpoint DataLabs in Orem, Utah. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2300.



PHOTO: GIM KELLY—BLACK STAR

Unlike some of the 3-D models his firm creates, electronic commerce doesn't have to be scary, says Martin Plaehn.

might cause them to direct business away from you, even though you did not intend to cut them out of your business plan.

Truth be told, no distributor or sales employee would ever encourage a supplier to offer direct sales via a Web site.

Product sales over the Internet require a strategy that serves both your interests and those of your current sales and distribution network.

For example, offer your sales team and distributors private Web pages that contain special information on sales, products, pricing, and packaging. You might also create an exclusive Web-based order-entry system, real-time responses (especially important for international sales), and faster delivery times for sales-force or distributor orders placed through your Web site.

You may even want to give resellers (sales representatives) a credit on future orders every time a customer bypasses

them and orders direct from you. This will make your Web site less of a threat. And because resellers are the local reps who promote and service your products, keeping them productive is crucial.

From an internal perspective, build your Web site so that it provides your business-development team with timely customer and sales information. The team needs to know who's visiting, how long they stay, and where they go within your site. It also needs to know how customers learned about the site—from a partner's site, for instance, or a banner ad elsewhere on the Web—where they go from your site, and the correlation between marketing efforts and registrations (individuals signing in as customers).

This information is vital to how you refine marketing, sales, and product promotions. And it may be equally important for developing new client services or products ahead of your competition.

Ultimately, to succeed, your Web strategy must continually take into account how you will do business in the future. Building an incomplete Web site, or failing to integrate and continuously refine your Web strategy, will only increase costs.

If you build the Web site into your infrastructure and business plan, however, you'll create a new mechanism for achieving your business goals—from increased sales to better responsiveness when the marketplace changes—all of which will help you tame the beast and give you a competitive edge in today's "new economy."

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WHAT I LEARNED

Building an Internet site into your firm's infrastructure and business plan can give you a competitive edge.



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Business news in brief from the nation's capital.

INSURANCE COSTS

Bills Would Reduce Auto Premiums

Bills pending in Congress would enable businesses and individuals to cut their automobile-insurance premiums significantly, say the measures' congressional and business proponents.

The bipartisan bills, named the Auto Choice Reform Act in both the House and the Senate, would require insurance companies to provide personal-protection insurance (PPI) to motorists as a low-cost alternative to the current systems used in their states.

Insurers would be able to offer the lower rates, say proponents, because motorists who chose PPI coverage would be unable to sue to recover noneconomic damages, such as for pain and suffering. In such suits, plaintiffs' attorneys generally receive as much as one-third of damages awarded by courts.

The legislation's sponsors include Sens. Mitch McConnell, R-Ky., Joseph I. Lieberman, D-Conn., and Daniel Patrick Moynihan, D-N.Y., and Reps. Richard K. Armey, R-Texas, and James P. Moran, D-Va. Business and consumer-advocacy groups backing the legislation include the U.S. Chamber of Commerce and Americans for

Removing The Pain From Auto Insurance

Businesses and individuals would save an estimated total of nearly \$195 billion in automobile-insurance premiums over five years if "auto-choice" legislation pending in Congress is enacted and if all consumers then opt to waive their right to sue for "pain and suffering" after accidents.

Premium Savings (Rounded Projections, In Billions)

	Businesses	Individuals	Total
1998	\$8.10	\$27.41	\$35.51
1999	8.18	28.85	37.03
2000	8.26	30.36	38.61
2001	8.33	31.95	40.28
2002	8.42	33.62	42.03
Total	41.28	152.18	193.46

SOURCE: JOINT ECONOMIC COMMITTEE OF CONGRESS

CHART: HANS A. BAUM

Tax Reform. In supporting the legislation, the U.S. Chamber is representing its members as consumers of auto insurance—both business and individual, says Lawrence Kraus, president of the U.S. Chamber Institute for Legal Reform.

"Under the current system, the incentive to sue for pain and suffering in auto-related cases results in fraud, increased litigation, and increased insurance rates," Kraus says. "It's time to tackle the prob-

lem of lawsuit abuse."

Under the auto-choice proposal, motorists opting for PPI coverage would recover economic losses—the costs of medical treatments or loss of income, for example—from their own insurers, regardless of fault.

If their coverage were inadequate, they could collect uncovered losses from their health insurers or sue the other driver for uncompensated economic losses if the other driver were at fault. Payments from PPI policies would have to be made by insurers within 30 days of claims submission, with a 24 percent interest penalty for late payments.

Motorists with PPI coverage, however, would relinquish the right to sue for noneconomic losses

such as pain and suffering.

Those who did not opt for PPI coverage would be required to purchase so-called tort-maintenance coverage (TMC), which is similar to auto coverage available today.

States could opt out of the PPI system by legislative action or by certification by their insurance commissioners that the average driver's premium for bodily-injury coverage would not decline by at least 30 percent. The certification would have to occur within 90 days of enactment of the auto-choice measure.

The Joint Economic Committee of Congress estimates that businesses and individuals would save nearly \$195 billion in vehicle-insurance premiums over five years if the auto-choice measure were enacted and if all consumers chose PPI coverage. (See the chart.)

Peter Kinzler, president of the Coalition for Auto-Insurance Reform—an Alexandria, Va.-based group of businesses and individuals—estimates that vehicle-insurance costs for PPI business participants would drop by an average of 27.5 percent, and for individual participants by about 23 percent.

—Thomas Love

—Thomas Love

ORGANIZED LABOR

Fall Elections Next Battleground For Curbs On Use Of Union Dues

California voters on June 2 rejected a statewide initiative that would have required labor unions to get annual written permission from members to spend their union dues for political purposes.

The measure, the Paycheck Protection Initiative, was listed as Proposition 226 on the ballot.

Organized labor spent an estimated \$20 million in an all-out effort to defeat the proposal, including advertisements that said it would undercut every popular issue backed

by unions, ranging from good schools to food safety. The U.S. Chamber of Commerce was among the organizations that worked for passage of the measure.

Grover Norquist, president of Americans For Tax Reform, a Washington-based group and a major backer of the initiative, said, "It's now on to the fall election, when Colorado, Nevada, and Oregon will have paycheck protection on their ballots. We will be active in all 50 states during the next legislative cycle, and we expect five to 10 states will enact paycheck protection next year."



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POSTAL COSTS

Decision Nears On Boosting Business Mailing Rates

The U.S. Postal Service will decide soon when to impose a 1-cent increase in the cost of mailing a first-class letter and will consider scores of other rate changes affecting business mailings.

In May, after 10 months of review, the independent Postal Rate Commission issued its recommendations on rate changes the Postal Service proposed in July 1997. Though the Postal Service's ruling Board of Governors is not bound legally to accept the Rate Commission's recommendations, it typically does so.

The key issue with the planned increase in the first-class stamp price, to 33 cents from 32, is when—not whether—to impose it.

Though some mailers and rate commission members have suggested that the Postal Service does not need to boost that rate after several consecutive years of billion-dollar-plus budget surpluses, the agency has not indicated that it will shelve the plan. The last change in the stamp price was in January 1995.

Rate commission Chairman Edward J. Gleiman said panel members see "no reason why any of the rate changes it is recommending ... should be put into effect before January 1999 at the earliest." The

Postal Rate Proposals

Following are examples of the rates proposed in July 1997 by the U.S. Postal Service and the corresponding rates recommended in May by the independent Postal Rate Commission.

Item	Current Rate	Postal Service Proposal	Postal Rate Commission Recommendation
First-Class Letter			
First Ounce	\$ 0.32	\$ 0.33	\$ 0.33
Additional Ounce	0.23	0.23	0.22
Postcard	0.20	0.21	0.20
Priority (2 lbs.)	3.00	3.20	3.20
Express Mail (8 oz.)	10.75	11.25	11.75
Parcel Post (3 lbs.)	3.68	4.35	4.25
Certified Mail	1.35	1.55	1.40
Return Receipt	1.10	1.45	1.25
Insured Mail (\$50)	0.75	0.95	0.85
Registered (\$500)	5.40	8.15	6.75

CHART: ALBERTO PACHECO

SOURCE: U.S. POSTAL RATE COMMISSION

Postal Service governors could decide as early as June which rates to change and when to impose the changes.

Meanwhile, in May the governors selected career Postal Service executive William J. Henderson to be postmaster

general, replacing Marvin Runyon, who resigned after more than five years. Henderson, 50, who was instrumental in improving the agency's on-time delivery efforts in major cities, inherits a work force of more than 800,000.

—Steve Bates

TRANSPORTATION

Record Highway Measure Clears Final Congressional Hurdle

The largest public-works bill in U.S. history, approved by Congress in May and expected to be signed into law soon by President Clinton, will increase spending on highways, bridges, and mass transit by more than 40 percent over the next six years.

In approving the successor to the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991, which expired last year, Congress decided that future gasoline-tax revenues will be used solely for transportation projects. In the past, some of those funds had been diverted for other purposes or used to mask the size of federal budget deficits.

Some legislators sought to move the highway trust fund "off budget," which would have permitted the spending of the existing surplus as well as future fuel-tax revenues solely for transportation projects. Despite the desire of business interests to see that happen, they hailed the adopted compromise as a historic breakthrough that will upgrade the nation's transportation infrastructure and improve highway safety.

The legislation reduces the disparities in

funding among the states. Under ISTEA, some states received back from the federal government less than 80 percent of the fuel-tax revenues that their residents had paid at the pump. Now, each state will get back at least 90 percent.

The measure authorizes spending a total of \$217 billion over six years, with

about \$173 billion going to highways and bridges, \$41 billion to mass transit, and the rest to highway-safety projects. Congress must find more than \$17 billion in offsetting cuts from other spending programs to stay within the balanced-budget guidelines it approved in 1997.

—Steve Bates

FOR THE RECORD

■ The House was poised at press time to vote on its version of the budget resolution for fiscal year 1999, which begins Oct. 1.

As approved by the House Budget Committee, the resolution would offer \$101 billion in tax cuts over five years under an overall budget plan that calls for \$1.72 trillion in spending next year. The plan would pay for the tax cuts, including elimination of the so-called marriage penalty, by reducing spending for domestic discretionary programs that Congress funds annually.

The Senate passed its budget resolution in early April, allowing up to \$30 billion in tax cuts over five years and spending of \$1.73 trillion in fiscal 1999.

■ The Senate on May 7 passed by a vote of 97-0 its version of legislation to overhaul the Internal Revenue Service.

The Senate bill goes further than its

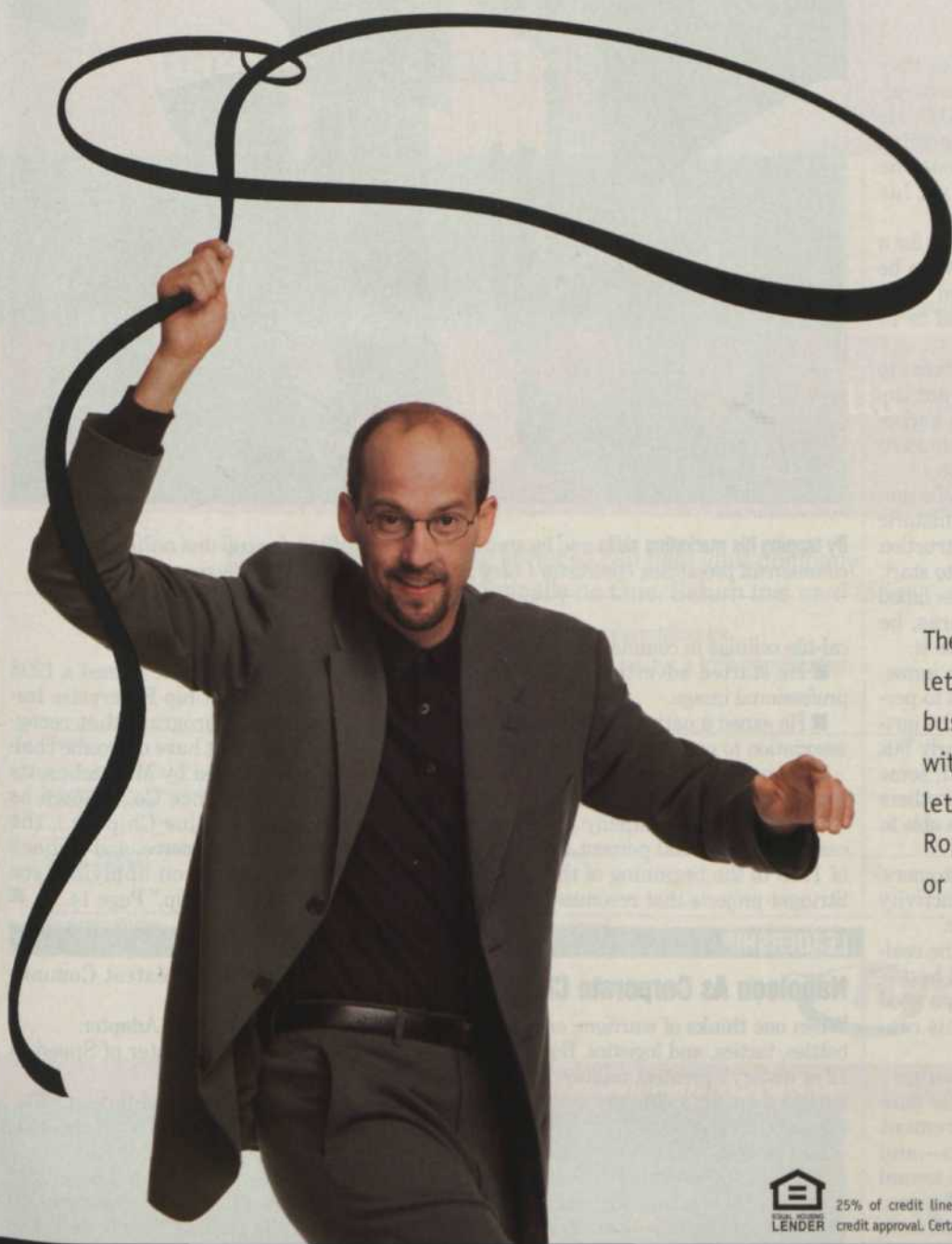
House counterpart, passed 426-4 last fall, in empowering a new, independent oversight board for the tax-collection agency. It also surpasses the House bill in providing for penalties against IRS agents who harass taxpayers. At press time, House and Senate conferees were trying to iron out differences in the measures.

■ A congressional conference committee aims to finish work soon on an overhaul of federal job-training programs.

A Senate-passed measure would consolidate various vocational-training programs, creating "one-stop" customer centers in local institutions such as chambers of commerce.

The House-passed bill includes similar language and would reauthorize the law that provides training and rehabilitation for the mentally and physically disabled.

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H E L P A T E V E R Y T U R N



Managing Your Small Business

Doing what you do best; building on success; cooperating with competitors.

By Thomas Love

MARKETING

When Prospects Are Poor, Resort To Your Strengths

In 1992, things looked as bleak as they could be for Casey B. Stringer's general-contracting firm in Washington, D.C. He had mortgaged his home for the third time and had borrowed all the money he could from family and friends, yet his business was failing.

He had been a successful salesman for a major medical-supplies company when he started Cason Amalgamated Inc. in 1990. "I had always known that I would be in business for myself," he says.

Using his saved-up sales commissions to finance his move, he decided to put his skills and education—including a bachelor's degree in marketing from Howard University in Washington—to the test.

Stringer says he had found satisfaction and enjoyment in renovating his historic Capitol Hill townhouse, so the construction industry seemed like a good place to start. He knew that many such businesses failed in the competitive Washington area, he says, but he was determined to make it.

Cason Amalgamated posted some immediate successes. It landed contracts to perform building improvements for the government. But the recession of the early '90s hit the construction industry hard; some contract awards were delayed, and others were being won by larger companies able to work on smaller profit margins.

So, in 1992, without cash or customers, Stringer suspended his business activity and resumed a full-time sales career.

In January 1995, he was hit by the realization that the one thing he did best—and through which he was making a good living—had been missing from his construction business: marketing.

He borrowed money from his mother's insurance policy, called on a longtime family friend to contribute his retirement funds, added his own savings—and restarted the company. With an eye toward marketing, Stringer made several changes:

- He modified the name from Cason Amalgamated Inc. to The Cason Co., realizing that the previous name was frequently misspelled and mispronounced.

- He specialized his operations. Previously, he was a general contractor; now, he focuses on installing drywall and acousti-



PHOTO: GREGIS LEFEBURE

By tapping his marketing skills and by specializing in installing drywall and ceiling tiles in commercial properties, contractor Casey B. Stringer renovated his business.

cal-tile ceilings in commercial properties.

- He started advertising, projecting a professional image.

- He joined a national construction trade association to network within the industry.

- He became active in a number of community-improvement activities.

The reinvented company has been successful. It grew 300 percent from the end of 1995 to the beginning of this year, and Stringer projects that revenues will exceed

\$10 million within three years.

His success led him to be named a 1998 honoree in the Blue Chip Enterprise Initiative, an annual program that recognizes small firms that have overcome challenges. It is sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Co.), the U.S. Chamber of Commerce, and *Nation's Business*. For details on applying, see "Time To Think Blue Chip," Page 14. ■

LEADERSHIP

Napoleon As Corporate CEO

When one thinks of warriors, one thinks of battles, tactics, and logistics. But a book on 12 of history's greatest military leaders examines them for a different strength—their managerial capabilities.

In *The Way of the Warrior: Leadership Lessons from History's Top Twelve Military Masters* (St. Martin's Press, \$21.95), authors James Dunnigan and Daniel Masteron examine how these leaders solved management problems—many of them commonly faced by business people today.

The figures cited in the book, and each one's distinguishing leadership trait, are: Alexander the Great: The Big, Big Vision.

Julius Caesar: The Greatest Communicator.

Charlemagne: The Great Adapter.

Genghis Khan: The Master of Speed in All Things.

Edward III: The Leveraged-Buyout King.

Gustavus Adolphus: The Art of Re-engineering.

Frederick the Great: Calculated Leverage.

Napoleon: The Master of Revolution.

Ulysses S. Grant: The Tycoon of Turn-around.

Douglas MacArthur: Coping with Disaster.

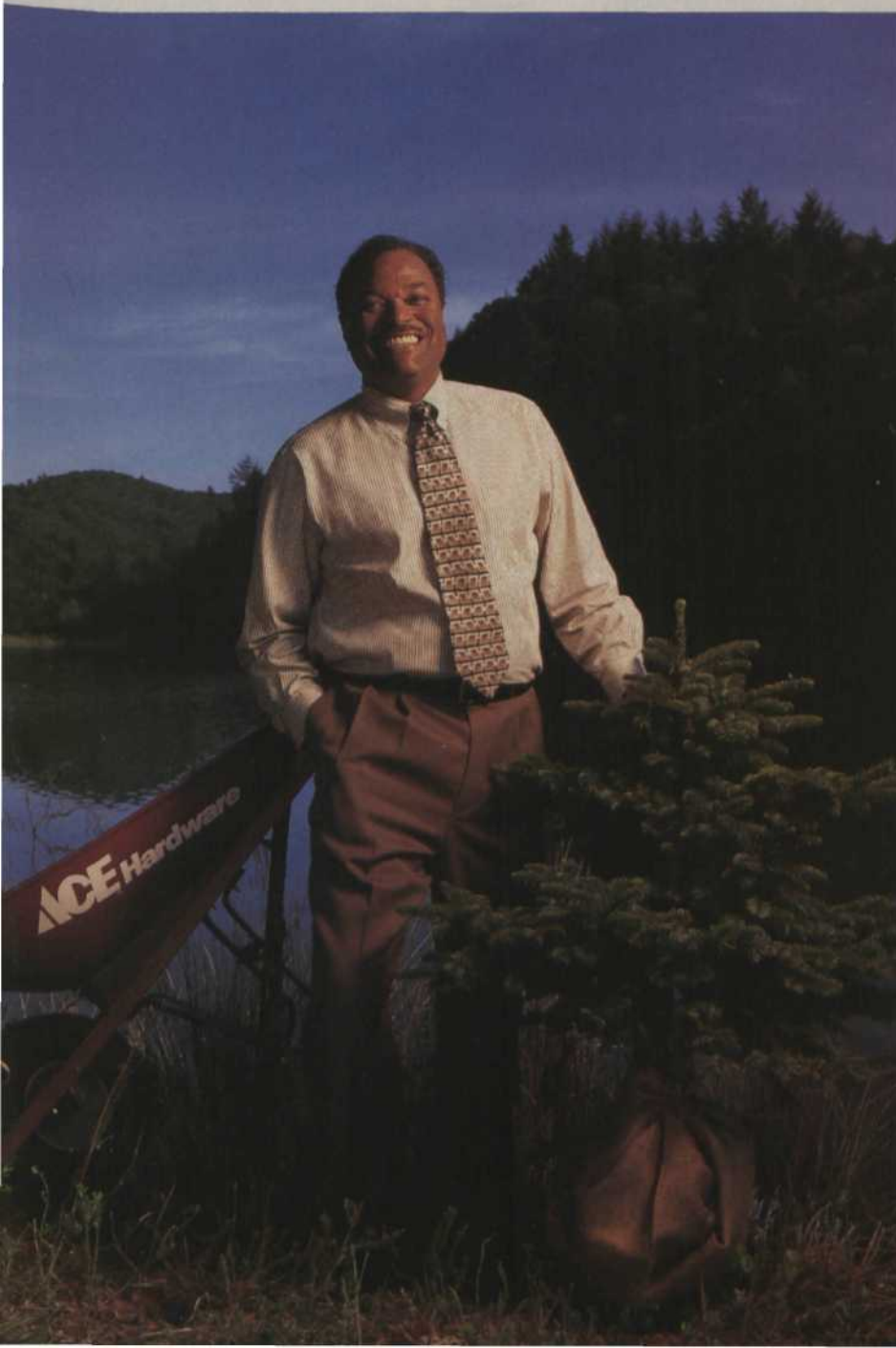
George Patton: The Taskmaster.

Norman Schwarzkopf: Building Alliances. ■



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BUSINESS STRATEGIES

Sometimes Cooperation Works Better Than Competition

"If you can't lick 'em, join 'em" is a popular adage. In some instances, it's also good business advice.

Consider, for example, the experiences of The AT-A-GLANCE Group and Franklin Covey Co., two competitors that recently teamed up to capitalize on each other's strengths.

AT-A-GLANCE, of Sidney, N.Y., designs, manufactures, and sells planning, organizing, and record-keeping products.

Franklin Covey, of Salt Lake City, was created last year by the merger of Franklin Quest Co. and the Covey Leadership Center. Franklin Quest was a provider of corporate training seminars and the creator of the Franklin Day Planner. The leadership center's products included books, seminars, videotapes, and training programs based on the best-selling book by Stephen R. Covey, *The 7 Habits of Highly Effective People*.

Franklin Covey produced popular products but had no system for selling them directly to companies. AT-A-GLANCE had such a system and saw it could make a profit on the sales of those products.

Franklin Covey generates demand for its time-planning products through its training seminars and time-management workshops—programs sold mostly to companies rather than to individuals. Its products are sold through retail stores and directly through mail order.

This caused problems for companies whose employees were buying the products after attending the functions and submitting expense accounts for reimbursement. When 100 employees submit 100 expense requests, the adminis-



PHOTO: ©WAYNE SORCE

Teaming up can work only for certain firms, says ofice-products marketing executive John Hayek.

trative and processing costs for the company handling them can mount to what AT-A-GLANCE Vice President for Marketing John Hayek calls "an avalanche of paperwork."

AT-A-GLANCE sells its products mainly through what Hayek describes as the "commercial-office-products" route, in which companies order supplies directly from extensive catalogs and pay a single bill for the purchases, which are delivered.

"We were both doing what we do well," says Hayek. "In a larger office, people want to centralize supply purchasing and negotiate on price," he says. "We have great expertise in commercial office products."

So the two companies agreed to team up to sell Franklin Covey products through the AT-A-GLANCE distribution system, starting the first of next year. This will help Franklin Covey's product sales and will boost AT-A-GLANCE's bottom line through its cut on the sales.

Jon H. Rowberry, president of Franklin Covey, calls the joint operation "a major milestone for both our companies, as our organizational clients can now purchase our high-quality products through an outlet that best meets their procurement needs. We are excited about the new doors this agreement opens for Covey products."

But just because the pair joined in one area does not mean they are no longer competitors, Hayek points out. Many of their products compete in the area of sales to individuals, with Franklin Covey distributing through retail stores and mail order and AT-A-GLANCE through office superstores, warehouse clubs, and gift and greeting-card outlets.

And, in a way, they still are competing within the commercial-office-products area, since AT-A-GLANCE continues to sell its own products as well as Franklin Covey's through its catalogs.

Not all companies are suited to team up with each other in any capacity, Hayek warns. "An important element is for the companies to have a relationship in which the parties are similar in terms of style, culture, philosophy, and even values," he says. And he's confident that AT-A-GLANCE and Franklin Covey have just such a relationship. ■

PLANNING

Keeping Your Company Ahead Means Building On Success

A problem that successful businesses can face—as unlikely as it may sound—is overcoming their success, according to Thomas Koulopoulos. He is a co-author, along with Richard Spinello and Wayne Toms, of *Corporate Instinct: Building a Knowing Enterprise for the 21st Century* (Van Nostrand Reinhold, \$29.99).

"Small-business owners cannot rest on their laurels," says Koulopoulos. "Success requires that they create the attitudes and culture that will allow them to obsolete their best ideas over and over again."

He cites as an example the Boston-based Gillette Co., which is in the midst of a massive campaign to convince shavers that the company's Sensor razors and

razor blades are obsolete and should be replaced with the firm's new Mach3 razor line. The older products command a 65 percent worldwide market share.

"The Sensor is one of the most successful products ever invented, and they want to put it out of business," Koulopoulos says.

That idea probably will sound crazy to some small-business owners, who may think that all that's needed for long-term success is one good idea they can milk indefinitely, Koulopoulos says. But that's not the way the world works, he maintains.

"Once you have a product that is accepted by the market, the next thing you do is consider how to leapfrog that product, because if you do not, your competition will," he says. "You do not want an organization with one great success, but one that can constantly outlive its successes." ■

NB TIP

Time To Think Blue Chip

If your company has faced significant challenges only to emerge stronger and more viable than ever, now's the time to enter the 1999 Blue Chip Enterprise Initiative, sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, and *Nation's Business*. Any company that has been in business for at least three years and employs five to 400 people is eligible.

For an application, send an electronic-mail request to bluechip@nationsbusiness.org, call 1-800-FOR-BCEI (1-800-367-2234), or check www.nationsbusiness.org/bluechip.html on the Internet. ■



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COVER STORY

The Backlash Against Managed Care

By Stephen Blakely



PHOTO: T. MICHAEL KEZZA

The nationwide backlash against managed health care hit a public-relations high-water mark in November when President Clinton carefully orchestrated a White House media event featuring his bipartisan advisory commission on health care. The panel had just voted to endorse a patients' "bill of rights" aimed at protecting consumers in managed-care health plans, an idea Clinton immediately embraced.

But not everyone was celebrating. Diane Graham, one of the very few small-business owners on the 34-member panel, had cast the sole dissenting vote. The chairman and CEO of Stratco, Inc., a chemical-engineering firm based in Leawood, Kan., with

To speak up for small business, Diane Graham of Stratco, Inc., right, was the only member of a presidential panel who voted against endorsing a patients' "bill of rights." With her is office assistant Olivia Tallarico.

60 employees, Graham suspected the commission's proposals would become costly new federal health-care mandates that ultimately would hurt workers and employers.

"If they were called 'recommendations,' maybe I could have supported some of these things," Graham says. "But if they were 'rights,' I knew they'd turn into mandates. And those mandates make health-care costs go up."

Noting that more than 1,000 state health-care mandates already are on the books, Graham believed that because "no one was speaking up for small business, I could not vote for any of this."

Just as she feared, the panel's work became the basis for mandate-laden legislation, crafted by Democratic congressional leaders and introduced in the House and Senate in March. The bills mirror legislation introduced last fall in the House by Rep. Charles Norwood, R-Ga.

Norwood's bill, known as PARCA—short for the Patient Access to Responsible Care Act—would create an estimated 300 federal health-insurance mandates and, for the first time, would expose employers to

The rising fever in Washington to impose mandates on managed care could price small firms and their workers out of the health-insurance market.



medical-malpractice lawsuits for coverage decisions they or their health plans make.

Both the Norwood bill and the Democratic proposal reflect the growing public and bipartisan political backlash against restrictions imposed by managed-care health plans. Managed care, which has grown rapidly in recent years, provides medical coverage to the vast majority of insured Americans.

By early June, Norwood's bill had the support of 232 of his colleagues, more than half the House membership. A companion bill has been introduced in the Senate by Republican Alfonse M. D'Amato of New York.

Because of its broad support in the House, PARCA remains the principal lightning rod for criticism of legislation that would hamstring managed-care plans. Business groups describe PARCA as "a trial lawyer's dream but an employer's nightmare," largely because of its employer-liability provisions.

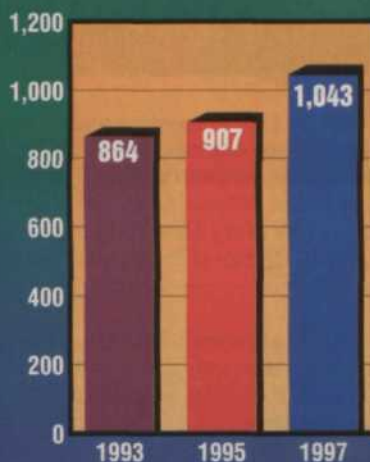
U.S. Chamber of Commerce President and CEO Thomas J. Donohue, speaking at a health-care conference at the business federation's Washington, D.C., headquarters in February, said companies would have a clear fiduciary responsibility to stop providing health-care benefits if Congress subjected them to the potentially huge new medical-malpractice liability that would be created by PARCA.

If PARCA's liability provisions become law, Donohue said, "we'll recommend to every business in the country to give their employees a check and get out of the health-care business." That would leave it to workers to buy health-care coverage on their own.

"However well-intended, however politically appealing," Donohue added, "the practice of piling on new mandates is threatening the ability of companies—especially small businesses—to provide health benefits to employees."

Republican leaders in Congress are trying to craft a politically viable alternative to mandates by creating new tax incentives

State Health Mandates On The Increase



SOURCE: BLUE CROSS AND BLUE SHIELD ASSOCIATION

CHARTS: KATHLEEN VETTER

designed to expand health-insurance coverage.

But the managed-care backlash has become a high-stakes political issue that has blurred traditional partisan differences in the 1998 congressional campaigns. GOP leaders are under heavy pressure from many fellow Republicans to enact health-care legislation this year.

The Appeal Of Managed Care

Broadly defined, managed care attempts to improve the quality and coordination of health care and reduce care costs by managing the ways that services are provided and controlling the fees charged for them.

Typically, managed care creates financial incentives that encourage patients to pick doctors and hospitals from a restricted list. The medical providers on the list are paid discounted—or "negotiated"—rates for their services in return for having the health plan's patients referred to them.

This system differs from conventional "fee-for-service" health plans, which reim-

burse patients for some of the charges of almost any doctor they choose. Fee-for-service care is not coordinated, and providers' bills are unrestricted.

While the term "managed care" is often used interchangeably with "health-maintenance organization," an HMO is just one of several types of managed-care plans.

The HMO was the original managed-care plan and is typically the most restrictive type: Patients must use physicians and hospitals within the plan and must be screened by a medical "gatekeeper"—typically a physician—to be referred to a specialist.

Medical costs outside the plan's network of providers generally are not covered. In this way, HMOs seek to avoid incurring costs for services that the plan or its medical providers regard as nonessential.

As managed-care plans grew dominant in the marketplace, less-restrictive options were developed to give patients more of a choice of providers. (See "Types Of Health-Insurance Plans," on Page 20.)

The Cost Equation

Managed-care plans are widely credited with subduing the raging medical-cost inflation of the late 1980s by reducing unnecessary hospitalizations, forcing providers to discount their rates, and causing the health-care industry to become more efficient and competitive.

The result has been a revolution in the health-care sector. Traditional fee-for-service plans had 52 percent of the health-care market in 1992 but had fallen to just 15 percent by last year as managed-care plans grew to 85 percent of the market.

But this rapid success laid the ground-



COVER STORY

work for the consumer discontent with managed-care plans. Because many managed-care health plans are provided by for-profit companies, the companies' cost-control efforts have created widespread fear that they are more interested in saving money than providing health care.

Disgruntled patients and consumer-advocacy groups argue that managed-care plans in general—and HMOs in particular—often control costs by denying medically necessary services to patients, even in life-threatening situations, or by providing low-quality care.

One barometer of the public's mood is a scene in the recent Academy Award-winning movie "As Good As It Gets," in which a young mother curses her HMO for not providing effective care for her sick son. According to news reports, many audiences around the country cheered when the mother accused the HMO of caring more about profits than patients.

"Managed care is winning in the health-care marketplace, but it is in danger of losing the battle for public opinion," says Drew Altman, president of the Kaiser Family Foundation, an independent, nonprofit foundation in Menlo Park, Calif., that conducts research on health-policy issues.

Increasing State Mandates

Because insurance is regulated primarily on the state level, state lawmakers were the first to react to the managed-care backlash. The political response has been the enactment of numerous state laws to regulate managed-care plans.

From 1993 to 1997, state health mandates jumped nearly 20 percent to 1,043 nationwide, according to data compiled by the Chicago-based Blue Cross and Blue Shield Association, the national association of independent Blue Cross and Blue Shield plan companies.

But state mandates don't apply to all employers. Under the Employee Retirement Income Security Act of 1974, a federal law known as ERISA, companies that "self-insure"—pay their employees' health claims directly from company funds—escape state regulation and are exempt from state health mandates.

Nationwide, 39 percent of full-time private-sector workers with health insurance are covered by self-insured health plans, according to the latest estimates by the Em-



PHOTO: T. MICHAEL KEZA

Rising costs for health insurance could force employees to drop coverage, says Kent Swanson, whose temporary-staffing firm places nurses in patients' homes. With him are nurse's aide Mary Ellen Horner and client Marie O'Grince of Timonium, Md.

ployee Benefits Research Institute, a Washington, D.C., research group. That is up from 33 percent in 1989, says EBRI.

Because companies that can afford to self-insure—and thus avoid the costs of state mandates—are typically large or midsize, the burden of paying for such mandates is left to the bulk of small firms that can't afford to self-insure.

The most common state health mandate is a requirement to pay for a minimum hospital stay following childbirth. Other popular mandates include laws that guarantee coverage for care provided by certain specialists and for emergency-room services.

Maryland, which passed a sweeping health-care reform law in 1993, has 40 health mandates—more than any other state, according to the Blue Cross and Blue Shield Association. Next in line are Florida and Minnesota with 37 each, California with 33, and New York and Texas with 30 each. Idaho and Washington, D.C., have the fewest health mandates—seven apiece.

No official estimates exist for the extra costs generated by the 1,043 state health mandates. But a 1997 study by a Seattle-based actuarial consulting firm, Milliman & Robertson, conducted for the National Center for Policy Analysis in Dallas, concluded that a standard health policy reflecting the 12 most common state mandates would be 15 to 30 percent more expensive than a policy written without the mandates in force; the premium differential would be \$525 to \$1,050 per family

per year, depending on the range of coverage set by the mandates in various states.

For a small firm with 25 employees, for example, the study calculated that the 12 most-common state mandates collectively would add about \$20,000 a year to the firm's health-insurance premiums, assuming a typical mix of 40 percent single and 60 percent family coverage.

The study notes that research has shown consistently that "the cost of mandated benefits is usually borne by employees in the form

of reduced wages, reduced work hours, or loss of employment."

As health mandates have increased in recent years, so too has the number of uninsured workers—to 15.7 percent of the work force in 1996, up almost two percentage points from 1987, according to the Agency for Health Policy Research, the lead research agency for the U.S. Department of Health and Human Services.

According to EBRI, 41.7 million Americans lack health insurance, compared with 224.2 million who have health coverage.

Small Firms' Big Burden

One example of a small firm that struggles with state mandates is Stratco, the Kansas-based chemical-engineering company, which has offices in three states and employees in seven. Because Stratco cannot afford to self-insure, the company's health insurance must comply with a complex maze of state health mandates, which differ widely on some issues from state to state. CEO Graham says the growing thicket of state health-care regulations makes it "impossible" for her to offer employees a uniform package of health benefits and consumes vast amounts of managerial time and resources.

The costs of those mandates, Graham says, are part of the reason why her company decided three years ago that it no longer could afford to pay the entire health-insurance bill for its workers. Since 1995, all Stratco employees, including Graham, have paid 25 percent of their health-insurance premiums.

"For us, the major problem is cost," Graham says, pinpointing the basic insurance issue for employers and workers. "Every year, we have to reduce our coverage to get close to the same premium we had before."

Another small business that feels the

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COVER STORY

burden of state health mandates is Nurses Available, Inc., a temporary-staffing company in Towson, Md.—the state with the most health mandates. Nurses Available places about 200 nurses in nursing homes and private homes in northern Maryland and southeastern Pennsylvania. Kent Swanson, who bought the firm in 1985 and has roughly tripled its size, could not afford to offer health benefits to his workers until recently. The company pays 40 percent of the premiums.

Swanson notes that some of Maryland's health mandates apply to a company's out-of-state employees, creating extra costs for his employees who live and work in Pennsylvania. Some have dropped their coverage as insurance rates have gone up.

"If the choice for some employees is putting food on the table or [buying] health insurance, they'll drop health insurance," Swanson says. "The politicians think there's a deep well with small business, but there's not."

Washington's Prescriptions

While health-care mandates continue to grow on the state level, some of the bills being considered on Capitol Hill would affect employers nationwide. About 100 bills

related to health care have been introduced by Congress this year, and more are being drafted.

For employers, there are two key issues in the legislation resulting from the managed-care backlash:

- Proposed new legal rights for patients to sue their managed-care health plans—and the companies that sponsor the plans—for medical malpractice.

- The added costs from a host of proposed new federal mandates.

The liability issue is potentially the most damaging to the 50-year-old system of voluntary employer-sponsored health-care insurance.

Currently, ERISA bars private-sector employees from suing their employer-provided health plans for anything other than the value of denied benefits and attorney fees. While patients can sue individual health-care providers for malpractice, ERISA pre-empts them from being able to sue their health plan for lost in-

Escalating Health-Benefit Costs

Percentage changes in average total premium costs—including the employer's contribution as well as the costs paid by the employee, whether active or retired—compared with the rate of increase in the Consumer Price Index.



SOURCES: MERCER/ FOSTER HIGGINS; U.S. BUREAU OF LABOR STATISTICS

*Estimated

Types Of Health-Insurance Plans

There are four major types of health-insurance plans on the market. Here's how they differ:

Conventional Health Insurance.

Under these arrangements, also known as "fee-for-service" or "indemnity" plans, those enrolled go to doctors of their choice and generally must pay a certain amount of health-care costs themselves—the "deductible"—at which point insurance reimbursements begin.

They also must pay "co-insurance"—a portion of the overall costs—beyond the deductible; typically 80 percent is paid by the insurance company and 20 percent by the patient. Health-care providers are paid on a fee-for-service basis.

Conventional plans have fallen rapidly from market dominance and now account for only 15 percent of the under-65 health-insurance market.

Health Maintenance Organization (HMO). The most restrictive type of managed-care plans, HMOs generally require enrollees to get all their medical

care from the HMO's physicians and from hospitals under contract with the HMO, or to get prior authorization to go outside the HMO in special circumstances, such as out-of-town emergencies. Otherwise, the expense is not covered by insurance.

Patients must go through a primary HMO physician, or "gatekeeper," to be referred to specialists. The medical services received from HMO physicians are typically covered in full, apart from a set "co-payment" for an office visit. Co-payments may also be required for items such as prescription drugs.

One of the major tools used by HMOs and other managed-care plans to control costs is "utilization review." In this process, health-plan doctors and administrators determine if certain procedures are medically necessary, and they develop guidelines for effective and efficient treatment of various illnesses.

HMOs are the second-most-common type of managed-care health plan, with 30 percent of the total health-insurance market.

Preferred Provider Organization (PPO).

The most common type of managed-care plan, with 35 percent of the total market, is the PPO. These organizations offer patients significantly lower deductibles and co-insurance rates than they can get under conventional plans if the patients use physicians and hospitals that are part of the PPO's network of providers. PPOs also allow enrollees to receive services from providers outside the network—but at a higher price.

Point-of-Service Plan (POS). These are also sometimes known as HMO/PPO hybrids or open-ended HMOs. As with a PPO, enrollees may choose to receive services from providers who are not members of the plan's network as well as from those who are.

When enrollees use network providers, a POS plan functions much like an HMO. When they use other providers, by contrast, those providers are typically paid on a fee-for-service basis, and enrollees are responsible for deductibles and co-insurance payments.

The POS is the third-most-common type of managed-care plan, with 20 percent of the market.

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COVER STORY

come, pain and suffering, or disability caused by malpractice.

PARCA, the legislation sponsored by Norwood in the House and D'Amato in the Senate, would repeal the ERISA pre-emption provisions by applying federal mandates to all health plans nationwide and by making "any person that provides insurance or administrative services" explicitly liable for damages under individual state laws. Many legal experts say that

business organizations, described Norwood's latest revisions as "little more than rearranging deck chairs on the Titanic." The coalition warns that trial lawyers—who strongly support PARCA—have proved adept at expanding vaguely written laws, and it says "the additional costs of liability [from PARCA] would force many employers, particularly small businesses, to drop coverage entirely."

The Patients' Bill of Rights Act, intro-

costs, thereby reigniting medical inflation.

In addition to their liability provisions, PARCA and the Patients' Bill of Rights Act would impose a vast array of new federal regulations on all health plans nationwide, including the self-insured plans that currently escape state regulation. Some provisions in the two proposals would apply only to managed-care plans, however.

The major mandates in PARCA, which are found to varying degrees in other health-mandate bills, include:

- A federal ban on gag clauses, which managed-care critics say are used by some plans to limit what doctors can tell patients about treatment options.

- A ban on pre-authorization requirements for emergency-room care, or adoption of the "prudent layperson" threshold for defining a medical emergency.

- Guaranteed access to medical specialists when recommended by the treating physician, as well as a requirement that all health networks offer an option more flexible than an HMO.

- Limitations on the ability of health plans to exclude doctors or certain other health-care specialists.

- Creation of independent grievance panels for patients and doctors to appeal adverse decisions by a managed-care health plan.

The Democrats' Patients' Bill of Rights Act would require a 48-hour minimum hospital stay for mastectomies and 24 hours for lymph-node dissection. Various other proposals introduced in Congress would impose mandates related to specific treatments or illnesses, such as breast cancer.

The Impact Of Mandates

An analysis done for the Health Benefits Coalition indicates that PARCA's provisions would impose more than 300 new federal mandates on health-insurance plans.

Separate estimates by the Milliman & Robertson actuarial firm conclude that PARCA would raise health-insurance premiums nationwide by an average of 23 percent, with increases—depending on the region—ranging from 7 to 39 percent.

EBRI, the benefits-research group, forecasts that PARCA's ultimate costs would depend on how broadly the courts interpreted any such law, particularly the medical-liability provision.

The Milliman & Robertson estimates are significant because every 1 percent increase in health-care premiums forces 200,000 to 400,000 Americans to lose or give up their health insurance, according to the Congressional Budget Office and



PHOTO: MICHAEL GREENLAR

The threat of being held liable for medical-malpractice suits could prompt Robert Stephens, president of Selflock Screw Products in East Syracuse, N.Y., to reconsider offering health benefits to employees such as Ford Reese, left, and Allah Reese.

because one or more employees in companies with health-benefit plans typically are involved in administering the plans, the companies would be drawn into liability for medical-malpractice suits.

On May 6, Norwood announced a package of draft amendments to his original PARCA legislation. The proposed amendments—which he calls PARCA '98—are designed to deflect some of the major criticisms of his bill. They would specify that an employer could be held liable only if the employer made a medical decision about an employee's care.

A dentist elected to Congress in 1994, Norwood says he has "absolutely" no interest in making employers liable for the mistakes of doctors or health plans. He says his goal with PARCA is to make managed-care plans more accountable and to stop what he calls "corporate bureaucrats" from denying necessary treatment arbitrarily or restricting care to substandard levels.

The Health Benefits Coalition, a Washington-based group of employers and

duced in the House by Rep. John Dingell, D-Mich., and in the Senate by Minority Leader Thomas Daschle, D-S.D., takes a slightly different legal path to the same objective. It would authorize states to let patients sue employer health-plan sponsors.

The threat of medical liability posed by both PARCA and the Patients' Bill of Rights has employers seriously rethinking whether to provide health insurance.

Jerry Jasinowski, president of the National Association of Manufacturers, has echoed the Chamber's Donohue in warning that many small firms "will have no choice but to drop health insurance for their employees entirely" if PARCA's liability provisions are enacted. "These mandate proposals spell disaster for employers and employees alike," he says.

Rekindling Medical Inflation?

Critics of mandates argue that the proposed regulations in PARCA and the Patients' Bill of Rights Act would cripple the ability of managed-care plans to control

the Lewin Group, an economic consulting firm in Fairfax, Va. Based on these estimates, says the Health Benefits Coalition, "PARCA could lead to an additional 5 million to 9 million uninsured."

Swanson of Nurses Available says PARCA's mandates clearly would threaten his ability to continue offering health insurance and the ability of some of his employees to afford coverage. "It means I'm going to have to take a hard look at providing [health insurance] at all, or that my employees may have to drop out," he says.

Robert Stephens, president of Selflock Screw Products Co., Inc., in East Syracuse, N.Y., also has problems with PARCA. His firm manufactures machine parts and offers its 31 employees the choice of an HMO or a traditional—and costlier—fee-for-service health-insurance contract. The company pays 75 percent of

the premiums.

For Stephens, being held liable for medical-malpractice suits would force him to reconsider whether he could afford the risk of offering health benefits. He describes PARCA as "a horrible bill" that would have extremely harmful consequences for the people it is intended to help.

On the political front, businesses of all sizes have been generating strong grassroots opposition to PARCA and similar bills. In February, the Health Benefits Coalition, whose 31 trade and business groups, including the U.S. Chamber of Commerce, represent more than 3 million companies with 100 million employees

"What those politicians don't realize is that for every action, there is a reaction," Stephens says. "We find as the cost goes up, [employees] opt out. We hate to see that happen. We've seen it happen several times: They just can't or won't pay the extra costs, so they'll drop their coverage."

Employers' Responses

The private sector has responded to the health-care legislation on several fronts, by promoting market-based solutions to managed-care problems.

Health Plans' Market Shares

Percentages of insured employees, by type of health coverage.



Managed-Care Bills In Congress

Nearly 100 measures in Congress would regulate the operations of managed-care health plans. The major bills, parts of which may form the basis of any final legislation, include the following:

The Patient Access to Responsible Care Act. PARCA, as it is known, is sponsored in the House by Charles Norwood, R-Ga., and in the Senate by Alfonse M. D'Amato, R-N.Y. The bills are H.R. 1415 and S. 644, respectively.

The most controversial provision would make all managed-care plans—and possibly the employers who sponsor the plans—subject to malpractice suits under state laws. On May 6, Norwood unveiled a package of draft amendments that he contends would protect employers from liability, but business and insurance groups dispute that assertion.

The bills also would establish consumer-protection standards for managed-care plans, such as grievance and appeals procedures for disputed actions.

The Patients' Bill of Rights Act. This legislation was introduced on behalf of the Democratic leadership in Congress by Rep. John Dingell, D-Mich., and Senate Minority Leader Tom Daschle, D-S.D. The com-

panion bills' designations are H.R. 3605 in the House and S. 1891 in the Senate.

The measures would write into law the proposals on patients' rights developed last year by President Clinton's Advisory Commission on Consumer Protection and Quality in the Health Care Industry.

However, the legislation goes well beyond the commission's recommendations for voluntary action by the health-care industry in several respects. Most notably, it would adopt a provision—similar to PARCA's—to allow patients to sue their health plans for malpractice.

Congressional GOP leadership proposals.

These measures are being developed by Republican task forces in the House and Senate. They are expected to avoid mandates and rely instead on tax incentives to make health insurance more affordable.

For example, House Ways and Means Committee Chairman Bill Archer, R-Texas, has said he is considering allowing

a tax deduction for the health premiums paid by those whose employers do not offer health insurance. Committee staff members indicate his proposal may also make health insurance for self-employed people fully tax deductible in 1999. Current law phases in the deduction from 45 percent now to 100 percent in 2007.

House Commerce Committee Chairman

Tom Bliley, R-Va., is also developing a bill that reportedly would blend some of PARCA's patient protections—but not the right to sue health plans or employers—with medical-malpractice reform.

Expansion of the Portability and Health Insurance Coverage Act. This legislation, H.R. 1515 in the House and S. 729 in the Senate, is strongly supported by the business community.

Sponsored by Rep. Harris Fawell, R-Ill., and Sen. Tim Hutchinson, R-Ark., these bills would allow small businesses to band together to purchase health insurance through trade, church, or business organizations. The new purchasing groups generally would be exempt from state health and consumer-protection laws.



PHOTO: T. MICHAEL KEZA

Rep. Charles Norwood, R-Ga.

COVER STORY

and family members, announced a national lobbying and advertising campaign against legislation containing new health-care mandates.

Business groups also are pursuing legislative alternatives that would create incentives for companies to expand and improve their health plans.

One is a proposal by Rep. Harris Fawell, R-Ill., that would allow small businesses to band together through trade, church, or business organizations to buy health insurance for their workers and families.

Another approach, under development by House Ways and Means Committee Chairman Bill Archer, R-Texas, would create tax incentives for the uninsured to buy health insurance.

In addition, both the health-insurance industry and private employers who purchase services are working to address patients' complaints about the quality of managed care. And late last year, the managed-care industry launched its own initiative, called "Putting Patients First," to improve patient relations and trust.

On Capitol Hill, where the politics of health care cut across ideological lines, the fate of health-mandate legislation remains unclear.

Congressional Democrats, who never abandoned proposals for major changes in the health-care system after the defeat of President Clinton's national health-care plan in 1994, see their Patients' Bill of Rights Act as an election-year winner.

Republican leaders, under pressure from other GOP lawmakers to pass health-mandate legislation such as PARCA, have created special working groups in the House and Senate to wrestle with the issue.

House Speaker Newt Gingrich, R-Ga., has acknowledged the Republicans' political difficulty in opposing PARCA because of voters' anger at managed care. Addressing the U.S. Chamber in February, he said, "I don't think [patients' rights] is something we're going to be able to walk away from because of too many complaints from too many places."

The divisions in Congress also are reflected in public-opinion polls: Consumers seem to favor more power over managed-care plans, but they don't want to pay for it.

A Kaiser Family Foundation/Harvard University poll in January found that 52 percent of those surveyed said the government should protect consumers of managed care, but 40 percent also said such intervention would not be worth the resulting costs.

Employers—who pick up most of the tab for the \$110 billion-a-year managed-care industry—and workers alike have a huge stake in how the health-care debate in Congress is resolved.

Stratco's Graham, who raised the lone objection on the president's health-care commission last fall, says it's not too late for small-business concerns to prevail. But for that to happen, she notes, more business owners need to bring their practical, real-world experience to the debate, and more workers need to pay attention to how they will be affected by the debate's outcome.

"The more I've read and talked to other business owners," Graham says, "the more I wished I'd become involved in this issue earlier."

NB



To order a reprint of this story, see Page 62.
For a fax copy, see Page 59.

A New Formula For Health Insurance?

On most issues, Rep. William M. Thomas of Southern California is as solid and conservative a Republican as you'll find in Congress. But on health care, he is promoting an idea he describes as radical, which ultimately would scrap the current system of employer-provided health insurance.

Thomas wants to restructure the federal tax code to end the deduction given to employers who pay for their workers' health insurance. Instead, he says, individuals should be responsible for buying their own health insurance and should get a personal tax credit for doing so.

The size of the tax credit would vary inversely with income: The smaller a person's income, the larger the credit.

While the concept is still being developed—no legislation has been introduced—Thomas and a colleague on the House Ways and Means Committee, Rep. Jim McCrery, R-La., are suggesting a private system of universal health coverage that would require all workers to purchase health insurance.

At the same time, the two lawmakers may recommend cutting back government health-insurance programs—including Medicare, the federal insurance program for the elderly, and Medicaid, the insurance program for the poor—although subsidies would still be provided for the indigent.

For workers to be able to obtain the group-rate insurance discounts that they now get through employment, Thomas says, individuals should be allowed to buy health insurance through other groups, such as churches or trade associations.

Thomas' plan also would allow the self-employed to deduct 100 percent of their health-insurance costs. Under current law, they may deduct only 45 percent of their costs and will not be able to claim a 100 percent deduction until 2007.

Thomas' ideas are being taken seriously because he is one of the top congressional Republican leaders on health-care issues. He is chairman of the House Ways and Means Subcommittee on Health and is the administrative chairman of the Bipartisan Commission on the Future of Medicare.

"Why are some of us thinking as radically as this? It's very simple," he told the American Hospital Association at a meeting in February. Unless "fundamental inequities" in the existing health-insurance

system are addressed, he warned, "the arguments of those who want to provide a governmental solution are very, very attractive and very, very appealing."

Thomas says he worries that the public backlash against managed care will add layers of state and federal regulation on

health plans. But that is only one of several factors forcing Congress to "think outside the box" on health care, he adds.

Others include the projected insolvency of Medicare's hospital-insurance fund in 2008; the GOP's long-term goal of simplifying the federal tax code; rising health-care costs; and the need to make the health-care industry more "market-oriented" by removing the government and em-

ployers from the doctor-patient relationship.

When will all this happen? Probably later rather than sooner, Thomas acknowledges. "This is not something that's going to be ready for the next election," he says, "because it's far more fundamental than that."



PHOTO: T. MICHAEL KEZA

Rep. William M. Thomas, R-Calif.

Small Business Financial Adviser

Selling a business is tougher than you might think; disability insurance for your 401(k) plan; invest now and pay taxes later.

Avoiding Pitfalls When Selling A Business

By Abby Livingston

A business owner can spend a lifetime building a company, then lose a large measure of its value by making mistakes through inexperience during a one-time event—selling the firm.

"Savvy business owners, worth millions, are underdogs when it comes to negotiating the sale of their business," says Colin Gabriel, a business broker in Westport, Conn. Gabriel, author of *How to Sell Your Business—And Get What You Want!* (Gwent Press, \$24.95), says sellers "lack experience, and emotions tend to influence their judgment. On the other hand, buyers know the subtleties of mergers and acquisitions."

A record number of businesses have been up for sale lately. There were more deals done in 1997 than in any other year, and 1998 so far has also been sizzling, according to *Mergers & Acquisitions* magazine.

The same factors that stimulate big-company transactions—the strong economy, low interest rates, and high stock prices—are encouraging smaller deals, too.

Market conditions aside, current demographics favor an increase in sales of small and mid-size companies as today's business owners enter their 50s and 60s and begin to think about doing other things—from consulting to traveling to managing their investments.

When it comes to selling a business, here are some traps to avoid, according to experts in the field and people who have sold their companies.

Being unprepared. Since you never know when you might be approached by a prospective buyer, you should have on hand a good business plan and audited financial statements. Hav-

ing the financials, in particular, will boost your credibility and ease buyer anxiety.

"There's always skepticism about a private company's reported results, but three to four years of audited financial statements from a regional or national CPA firm will alleviate most concerns," says Steven Elek, a partner in the Philadelphia office of Coopers & Lybrand, an accounting and consulting firm.

Audited financial statements not only can speed the sale of a company but also can draw the attention of interested parties, says Greg Smith of Greensboro, N.C., who has sold four businesses—all involving industrial electronics.

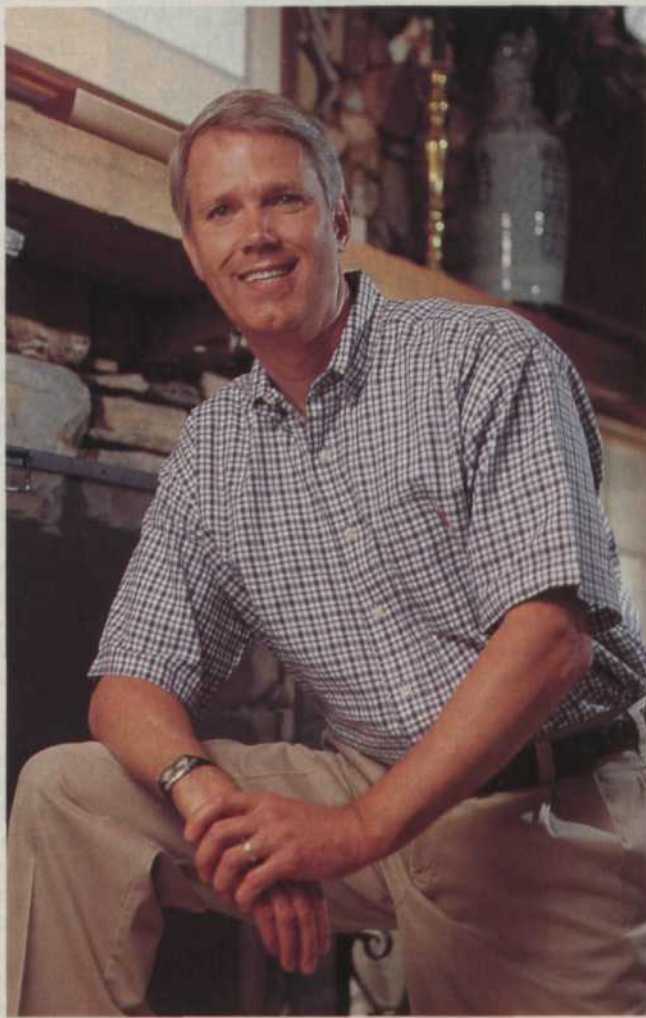


PHOTO: GUM STRATFORD—BLACK STAR

Having good financials also shortens the due-diligence phase of negotiations and is key to maintaining a deal's momentum. Just ask Greg Smith of Greensboro, N.C., who has sold four businesses—all involving industrial electronics and electrical equipment—in the past 21 years.

"I didn't have audited financials when I sold my first business at the age of 27," he says. "We had to re-create audited financials from unaudited reviews, and so the due-diligence period took a number of weeks."

"The next time I sold a company, I had audited financials, and the due-diligence period was cut in half. We also grabbed the attention of interested parties more quickly because they knew from the get-go that our financials were accurate."

Overestimating the value of your business. Generally, sellers think their businesses are worth more than they are. "The owner has built the business [and] thinks it's the greatest thing and worth a fortune," says Mendy Kwestel, a partner and director of entrepreneurial services in the Parsippany, N.J., office of Grant Thornton, an accounting and consulting firm.

Such misconceptions often are formed by looking at the price multiples of transactions involving large public companies, which can sell at 20 times earnings.

The problem is, these multiples don't apply in sales of closely held companies, and such unrealistic price expectations can make a business more difficult to sell or can prolong a process that typically takes at least nine months to complete.

Worse yet, a seller who goes into a deal hoping to negotiate a higher price probably will be disenchanted and will waste several months and thousands of

SMALL BUSINESS FINANCIAL ADVISER

dollars in legal and investment-banking fees.

The bottom line: Be realistic about your company's worth.

Managing the sale yourself. Finding a buyer should involve more than querying a network of suppliers, customers, and other business contacts. In fact, that strategy—while inexpensive—can prove disastrous.

Too much advance notice of your intentions could encourage competitors to try to buy the business. That could undermine service and jeopardize customer loyalty, resulting in a tarnished reputation or reduced revenue stream.

Either outcome could minimize your company's value.

In addition, you don't want employees to find out prematurely that the business is for sale. "They may fear losing their jobs and look for positions at other companies," says Elek. "A loss of talent during the sale process could compromise the deal getting done, as well as its pricing."

However, a professional adviser, such as an investment banker or a business broker, will know how to market your company—for example, who and where potential buyers are—as well as how to negotiate and structure the deal in the most confidential manner.

The business broker or investment banker you select should have experience in valuing businesses in your industry that are similar to yours in size. "Not only are the value parameters in each industry unique," Elek points out, "but size has an impact on the amount of attention and interest that a banker or broker will place on your deal."

Once you have found a likely buyer, you'll need to consult a lawyer and an accountant with experience in transactions similar to yours. That experience will give them a good feel for the critical points that need to be negotiated or conceded to facilitate the deal.

Counting on a deferred payment. Many buyers of small and midsize companies ask the seller to accept some portion of the purchase price in the form of a note. But taking a deferred payment has inherent risks.

For one, the buyer may run into financial difficulty and not be able to make good on the note. Or the buyer could allege that the seller made certain misrepresentations—regarding, say, customer prospects or product-warranty expenses—and refuse to pay the agreed-upon price.

"Some sellers may opt for a lower purchase price in return for getting cash up front," says Steven N. Haas, a partner in

the Philadelphia law office of Cozen & O'Connor.

Counting on the receipt of other deferred payments, such as an earnout—a contractual arrangement in which a seller agrees to a lower purchase price in return for an additional payment when certain financial goals are achieved—can also be problematic because you surrender control of the company but remain tied to its financial success.



(Buyers often conclude that the firm's continued success is tied to the involvement of the seller/owner and thus ask the seller to sign an employment contract for three to five years, with the additional earnout—or financial incentive—tied to future performance.)

For example, when Gaylord Layton sold his Denver-based software company—Formation Technologies Inc., which specialized in banking applications—to a bigger, public corporation, he signed a three-year employment contract, with an earnout tied to growth of 30 percent a year.

"But no sooner had I sold the company than the dynamics of the management team changed," says Layton. "Everyone had their own agendas. Out of five people on the team, one or two wanted to make their mark in a big corporation or were just immature. But according to my employment contract, I couldn't fire them. The internal disputes resulted in a lack of sales performance, which resulted in a poor chance of me earning my earnout."

Losing your focus. With all these issues demanding your attention, it's hard to stay focused on the day-to-day details of running your business. That was the case for Charlie Klapperich, former president of Western Building Services in Denver, who merged his firm with 11 other heating and air-conditioning firms last year. (He's now president of the new, larger company.)

"For the six months that it took to do the deal, I had to attend meetings, have auditors come go through the books, and just spend a lot of time in activities that didn't contribute to sales," he says. "During that time, we were going to have a decrease in sales anyway, and I knew that I'd have to contribute more than 100 percent of my efforts to pull ahead. I couldn't do that—and we lost some business."

Fortunately for Klapperich, the sale went through without a hitch. Says Grant Thornton's Kwestel: "If the top guy lets himself be consumed by a sale and loses the motivation to increase revenue or profits, it could create a big problem."

Expecting the buyer to share your vision. Once a business is sold, new owners often have their own ideas on how to run the company, and major disagreements over company policy and direction are quite common if the seller stays on with the company.

"Sellers think that selling a business will decrease their stress," says Kwestel. "More often than not, their stress increases. They don't understand that it's not their business anymore."

Even the best of intentions can go astray. Smith sold his fourth company, Electrical South, Inc., in 1994. The company repairs robotics and instrumentation for large firms, and its sales force calls on maintenance managers and engineers.

"My vision for how to grow the company was to build a sales force that could sell more services than just electronic repair," he says. "When I sold the company, we had a verbal agreement to move in that direction. But when it came time to move into the pneumatic and hydraulic repair field, there was a parting of the minds. The new owner no longer wanted to expand."

"My three-year contract was coming to a close, anyway," Smith continues. "But a seller has to realize that new owners can change their minds. At the very least, they won't always share your vision as to how to grow the business. In my case, who's to say whose vision is the right one? We won't know for five years or so."

Abby Livingston is a free-lance writer in Scarsdale, N.Y.

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DISABILITY COVERAGE

Insuring Your 401(k) Contributions

By Stephen Blakely

With baby boomers approaching retirement, the insurance industry is beginning to offer new products designed to protect their nest eggs—particularly their 401(k) retirement accounts.

The new insurance coverage is known as 401(k) or retirement disability insurance. In the event that a retirement-plan participant becomes totally disabled, the coverage typically guarantees that current payments will continue to be made to a defined-contribution retirement plan such as a 401(k), profit-sharing, SEP-IRA, or Keogh plan.

Generally, when a worker goes on long-term disability, the worker's salary is halted, which in turn suspends all contributions to 401(k) and similar salary-deferral plans. Retirement disability insurance restores those payments.

Retirement disability coverage is distinct from traditional long-term disability insurance, which is designed to cover only living expenses and typically pays only 40 to 70 percent of a disabled worker's salary. (See "Covering Your Company Against Disability," in the Small Business Financial Adviser section of the May issue, and "Insuring Your Earning Power," in the same section in April 1997.)

Insurers say the lack of disability coverage for retirement savings is a major hidden risk of defined-contribution retirement plans.

"Your income isn't just the salary you bring home. It's also the 10 to 15 percent or more that you are putting away for retirement each year," says Paul Love, vice president of Foster, Soltoff and Love, Ltd., a benefits consulting firm in Bethesda, Md. "Baby boomers want to maximize their retirement savings. And they are beginning to realize that a disability at this point would be absolutely devastating."

The potential market for retirement disability insurance is huge and growing. More than 25 million Americans participate in 401(k) retirement-savings programs, and assets now total more than \$1 trillion, according to the Spectrum Group, a benefits consulting firm in San Francisco.

Currently, there are two basic ways in which retirement disability insurance is sold. One is an individual contract that provides for benefits to be paid into a trust that's separate from the company-spon-

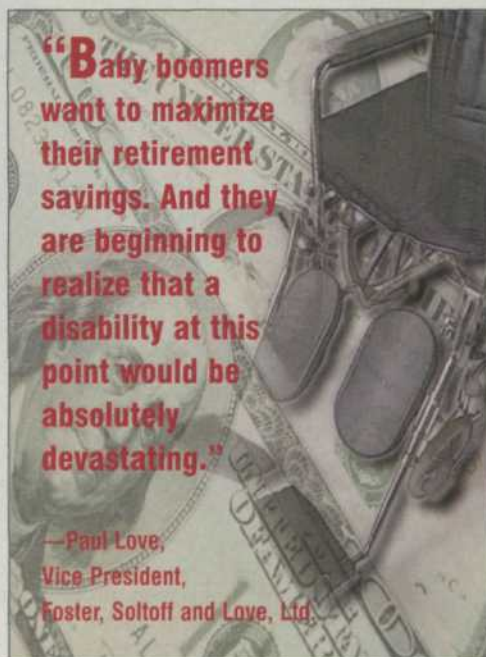
sored retirement plan. The other is a group contract, in which the employer or 401(k) plan buys the coverage and benefits are paid directly into a disabled worker's 401(k) account.

Each type acts as a stand-alone policy rather than a "rider" to an existing long-term disability contract. Each also provides "supplemental" insurance coverage, meaning it is not designed or intended to function as a retirement plan by itself.

Products On The Market

Since retirement disability insurance is a relatively new product, few companies currently offer it.

Since 1996, an individual product known as the Disability Income Trust has been marketed by Massachusetts Mutual Life Insurance Co., known as MassMutual.



tual—The Blue Chip Company, of Springfield, Mass.

Dave Schneider, a MassMutual sales consultant, says this coverage tends to appeal to highly compensated people, such as professionals and sole proprietors, although some employers have chosen to offer the coverage to their workers on an individual basis.

Under the MassMutual plan, an irrevocable trust is established six months after the insured worker becomes totally disabled. From that point forward, MassMutual pays benefits into the trust equal to 100 percent of the worker's pre-injury con-

tributions to a 401(k) or other defined-contribution retirement plan, including employer matches.

The disabled worker can choose to have the assets invested in mutual funds or a retirement annuity. Payments continue either until the worker is able to return to work or until age 65, at which point the trust's assets are distributed to the disabled worker.

A Group Approach

Later this year, a group-insurance plan known as the 401(k) Disability Completion Product will be offered by Unum Life Insurance Co. of Portland, Maine, in conjunction with Corporate Compensation Plans Inc., an employee-benefits firm in Danbury, Conn., that designed the plan.

This group approach will allow benefits to be paid directly to a disabled worker's 401(k) account because the 401(k) plan, rather than an individual, will own the policy. Benefits will equal the employee's contribution, the employer's match, or both, depending on the coverage chosen, and will continue to age 65 if the worker remains disabled. Only 401(k) contributions will be covered, and only for workers who have participated in the 401(k) plan for at least a year.

Craig Davis, executive vice president of Corporate Compensation Plans, says his company's product is designed for workers in all salary ranges and will be marketed primarily through 401(k) vendors, such as mutual-fund companies.

A similar group disability product, called a 401(k) Completion Feature, is being offered by Union Central Life Insurance Co. of Cincinnati. This allows employers of any size to add income protection to their 401(k) plan to cover only employee contributions or both employee and employer-match contributions.

Expenses for retirement disability coverage can range from 1 to 5 percent of a worker's annual retirement contributions, depending on the features chosen, insurers say. Since the average annual contribution to an individual's 401(k) plan is \$3,000, disability insurance on the account could cost \$30 to \$150 a year.

Tax treatment also can vary. MassMutual's product, for instance, allows benefits to be invested either in taxable mutual funds or in a tax-deferred annuity. Under the Unum plan, benefits will be placed in the disabled worker's 401(k) account, which is tax-deferred.

Withdrawals from defined-contribution retirement plans after age 59½ are taxed at ordinary income-tax rates. Withdrawals made before 59½ are subject to a 10 percent penalty. ■

INVESTING

Build Your Own Tax-Deferred Investments

By Randy Myers

Ask any investment professional where you should save for retirement, and you're likely to get one of two answers—an individual retirement account or a 401(k) savings plan.

In most cases, they're right. Both 401(k)s and IRAs are attractive investment vehicles because they postpone tax bills on your investment income. At the end of each year, money you otherwise would send to the Internal Revenue Service stays in your account, where it can continue to compound. Of the two types of plans, a 401(k) is especially attractive if your employer matches part or all of your contributions.

Unfortunately, not everybody has access to a 401(k) plan. IRA contributions are limited to \$2,000 a year, and tax-deductible IRAs are restricted by income caps.

If these limitations apply to you, don't despair. You can build a tax-deferred stock portfolio that mimics a 401(k) plan and hold it until retirement. Until you start to sell, your capital gains—and your taxes on those gains—will be deferred.

To be sure, not every stock in a buy-and-hold portfolio will prove to be a winner. "When it's time to start cashing out, your portfolio is bound to include losers as well as winners," explains James Rich, senior investment strategist for IBM Retirement Funds, IBM Corp.'s pension-management arm in Stamford, Conn.

"As you start to withdraw money from your account, sell the losers first. Since they've lost money, you'll owe no tax on those proceeds. In the meantime, your winners can stay in your portfolio and continue to compound tax-free."

You can establish your own tax-savvy stock retirement fund with a very modest amount of money. Many brokerage firms will allow you to open an account with as little as \$2,000. Thereafter, you can make stock purchases on whatever schedule best fits your budget.

If you must sell early at a profit, you can either pay taxes on your gain at that time or offset the gain by selling another stock that has gone down in value. To the extent that the loss on the second stock equals the gain on the first, you'll owe no capital-gains tax.

Here are several pointers for building your own tax-deferred retirement account:

Diversify your holdings. The fewer stocks you own, the greater the chance that one really bad one will ruin your

entire portfolio. If you're starting your fund on a budget, go ahead and buy one or two stocks, and just add more over time. Your goal should be to own at least 10 stocks—preferably in half a dozen or more industries—to ensure adequate diversification. But don't overdo it. A portfolio of more than 20 stocks could be difficult to track and manage.

gle trade can exceed \$100. Commissions at discount brokers are as low as \$8 if you trade over the Internet, \$35 by phone.

Open a Roth IRA. If you are under the income caps that determine eligibility for a Roth IRA, put your first \$2,000 of retirement savings into one of those each year. (The maximum contribution is permitted



Choose stocks with good potential for long-term growth. Easier said than done, of course. Still, you can avoid obvious risks, like sinking a ton of money into that little company that just made millions producing a best-selling video game. Yes, it's hot today, but it could be out of business tomorrow. Pepper your portfolio with a few of these long shots if you must, but you'll sleep easier if you emphasize established companies in growing industries.

Maximize tax efficiency by avoiding stocks that pay hefty dividends. While capital-gains taxes aren't due until you sell a winning stock, dividends are taxable for the year in which they're received. Yes, dividends are nice for income-oriented investors—especially when stock prices are falling. But you're not looking for current income from this account. Either avoid dividend-paying stocks such as utilities, banks, and vertically integrated oil companies, or hold their shares in an IRA.

Consider using a discount stockbroker. If you do your own stock research, there's little reason to use a full-service broker, for whom the commission for a sin-

to individuals with adjusted gross income up to \$95,000, with reduced contributions above that cap phased out at \$110,000. For married couples filing jointly, the income limits are \$150,000 and \$160,000.) While earnings from your do-it-yourself retirement plan are tax-deferred until withdrawal, earnings in a Roth IRA are tax-free forever after the account has been open for a minimum of five years.

Over time, you'll find that managing your own tax-deferred retirement account takes patience—especially when the stock market gets choppy and other investors panic. Just remember that in 61 of 63 overlapping 10-year periods since 1929, U.S. stocks have earned positive returns, according to Ibbotson Associates, a Chicago research firm. And there have been no 15-year or 20-year periods since that time in which stocks have lost money. If history even comes close to repeating itself, your do-it-yourself retirement fund will prove rewarding indeed.

NB

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

Setting The Size Of Your Paycheck

Deciding the level of your compensation requires a delicate dance—and your partner may be the IRS.

By Randy Myers

How much should you pay yourself? It sounds so simple. But if you own a company or plan to, this could be one of the most difficult questions you'll ever face because the answer changes over time as your company changes. And the decisions you make along the way might determine in part whether your business dies or thrives.

"The consequences [of a wrong decision] can be that at some point, there just won't be a company anymore," warns Howard Lewinter, a small-business consultant in Pittsburgh. "And you won't even know what happened."

Most discussions about what a small-business owner should take out of the company in pay focus on the pitfalls of taking too much. Big paychecks can rob a company of capital needed for growth, leaving it gasping for cash in tough times—the consequences suggested by Lewinter.

Unjustifiably high salaries also can alienate key stakeholders, including lenders, senior employees, and bonding companies. And sometimes overly high salaries can trigger tax penalties.

But when the owner's salary is too low, that too can have negative repercussions. Depending on the company's legal structure, the Internal Revenue Service may hit the owner or the firm with penalties if the agency decides that the salary was inappropriately low, or the IRS may hold the firm liable for an onerous "accumulated earnings tax."

Also, if the owner's exit strategy is to retire and have his or her heirs buy the company, the heirs could have difficulty financing the purchase if the owner's low salary over a long period of time has increased the value of the firm by leaving cash in it.

Unfortunately, there are no universal solutions to the problem of setting the owner's compensation, especially after the business achieves success. Even accountants and consultants sometimes disagree on how to approach the topic. Nonetheless, there are smart answers that can be tai-

lored to individual circumstances.

"Money isn't merely dollars," Lewinter says. "It's a precious natural resource. Your challenge is to use that precious natural resource to build your company for the future."

Most owners have no trouble deciding how much to pay themselves when they're just getting their business off the ground. With start-up costs eating into seed capital, there's often little cash left to fund a regular salary, much less a big one.

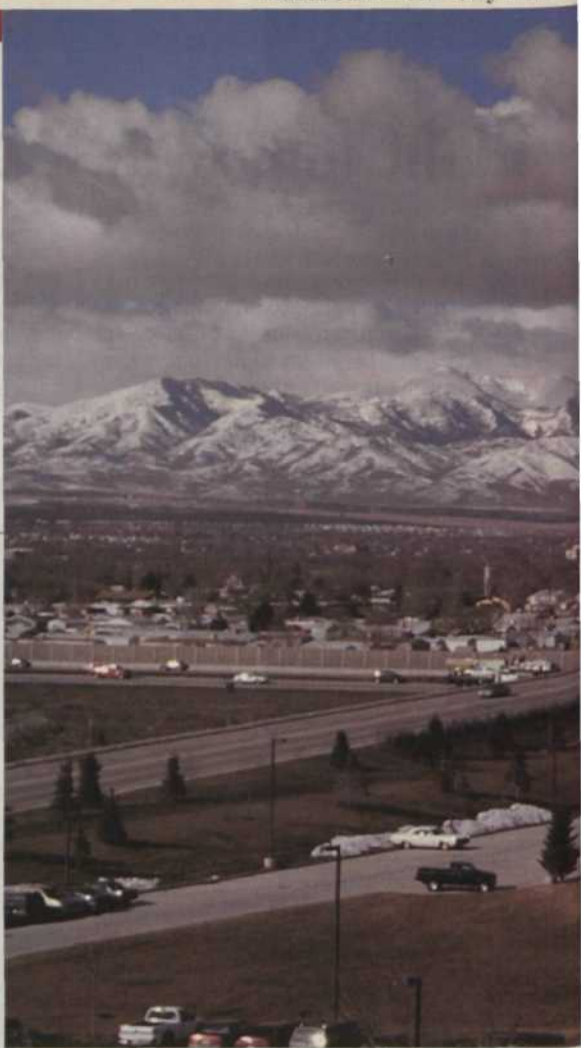
"We started our company with \$3,500, which was all we had at the time," says Hyrum Smith, chairman and CEO of Franklin Covey Co., a leadership-development and productivity-training firm headquartered in Salt Lake City that now generates \$600 million a year in revenues. "Staying financially viable was a daily concern, so we paid ourselves just barely enough to survive."

Raj Khera, president of Khera Communications, a four-year-old Rockville, Md., company that helps firms set up sites on the World Wide Web, says deciding to pay himself "zero salary" at start-up was "probably the simplest question I ever had to answer." Even today, he pays himself the minimum he needs to get by so that he can plow more cash into expanding the business, which has 10 employees.

The Growing Complexities

As companies begin to grow and prosper, salary decisions become more complex. When money is available, the owner must decide how best to spend it. The first issue to consider is almost always your company's legal structure and the tax consequences associated with it.

If your company is incorporated—and most companies of any size are—chances are that it's either a C corporation or an S corporation. In a C corporation, business profits that aren't paid to the owners are



taxed by the federal government at a corporate rate that begins at 15 percent on the first \$50,000 of income, jumps to 25 percent on the next \$25,000, rises in two stages to 39 percent for the bracket of \$100,000 to \$335,000, and drops to lower rates for subsequent brackets.

"While there are many exceptions to the rule, most small [C corporation] companies are driven to reduce their corporate tax as much as possible," says Aaron Eidelman, a CPA and tax partner with Goldstein Golub Kessler & Co. in New York City.

The reason is to avoid double taxation. Profits paid out as salary or as a bonus to the company's owner are taxed only once, at that individual's personal tax rate. If money is left in the company at year's end and is paid to the owner later, the money gets taxed twice, first at the corporate rate in the year that it is earned and again at the owner's personal rate in the year it is paid.

Unfortunately, few business owners can predict precisely how much their companies will earn in a given year, making it hard to set salaries that will neatly eliminate all corporate profits. A common strategy employed by many owners of C corporations is to take a fixed salary that the company can afford comfortably through-

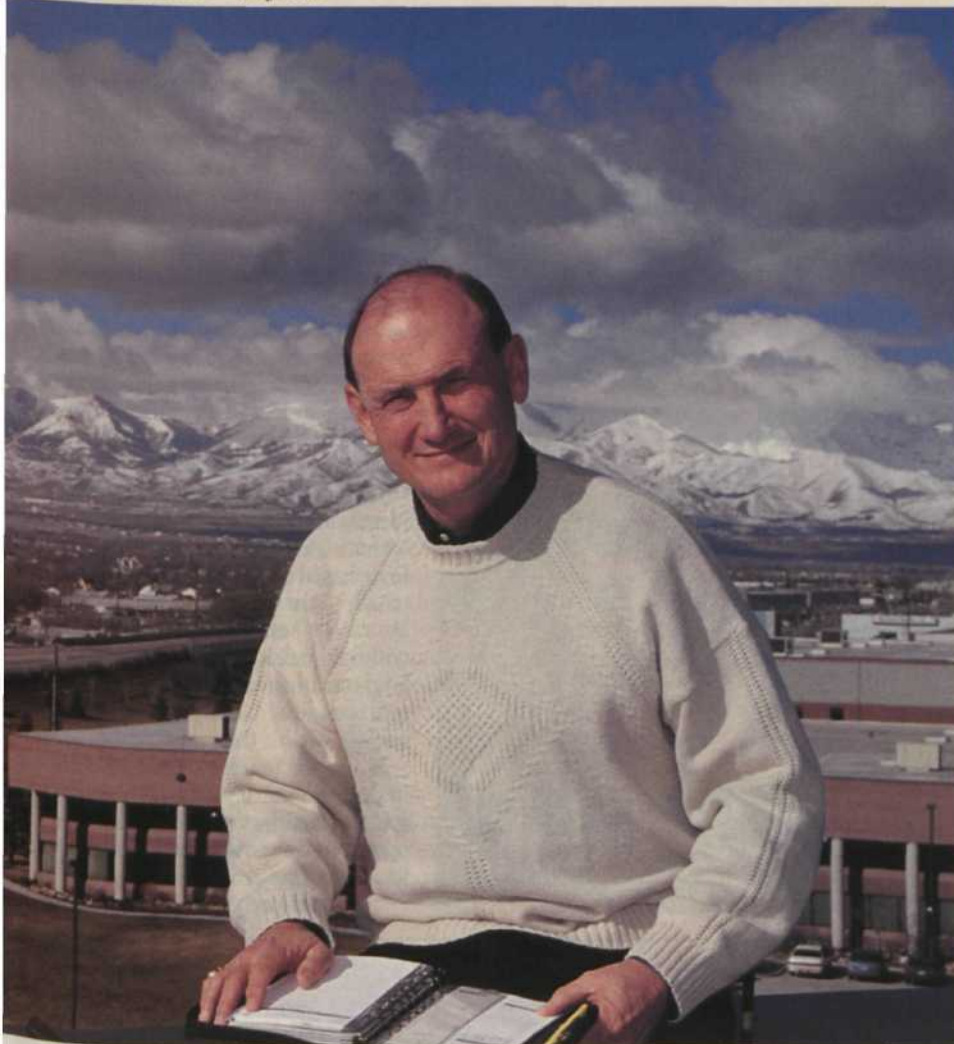


PHOTO: T. MICHAEL KEZA

Entrepreneurs who hold off on giving themselves big salaries will be rewarded when their companies are firmly established, says Franklin Covey Co.'s Hyrum Smith.

out the year and then take anything left over at the end of the year as a bonus.

But there are a number of complicating issues that should be factored into such a strategy, beginning with the company's capital needs.

"If there's a working-capital consideration, you don't want to drain the business of all its money," says Eidelman. True, the owner could take all of the company's profits and then lend some or all of that money back to the firm as needed, with the company paying a market rate of interest on the borrowings. While that's another common strategy, it's not always tax-smart.

Suppose, for example, that your company finishes the year with a \$50,000 profit and you know you will need to buy a \$50,000 piece of equipment in the year ahead.

Further, suppose that you can't be sure about funding that purchase from operations and that you are in the 31 percent federal income-tax bracket.

It would make far more sense to leave that \$50,000 profit in the company this

year so that it would be taxed at the minimum corporate rate of 15 percent, rather than pay it to yourself and have it taxed at your higher personal-income-tax rate of 31 percent.

It might also make sense—indeed, it may be incumbent upon you—to leave some profits in the company if your lenders have provisions in your loan agreements requiring that you do so.

Such covenants might actually set your compensation level or require that your company attain a specific level of profitability before you, the owner, can increase your pay.

Alternatively, the covenants might specify that your company maintain a certain amount of working capital on its balance sheet, which could constrain your compensation.

"There's no right or wrong answer to this question of how much to take out of the company and how much to leave in," says Barry Picker, a CPA in New York City. "But if the money is not desperately needed for expansion, I'm always in favor

of taking it all out and paying tax at the personal rate."

The IRS Equation

Even if you strike the perfect balance between funding your wallet and funding your company, you still have to make sure that your salary passes muster with the IRS. That means making sure that your salary can be justified by the nature of your business and its profitability.

If your firm is organized as a C corporation and the IRS deems your income excessive, the agency might argue that some of what you've called salary or bonus is actually a dividend on your company stock.

Such a determination wouldn't affect you personally if you couldn't convince the IRS otherwise. That's because dividends, like salaries, are taxed as ordinary income to individuals, and you still would pay the same tax. But it would hurt your firm because dividends, unlike salaries and bonuses, aren't deductible business expenses. Thus, your company would have to pay corporate income taxes on money distributed as dividends—the same money on which you're also taxed at your personal rate.

While it's important to keep this in mind, most business owners won't need to lose sleep over it. As a practical matter, you may be able to earn quite a large sum before the IRS raises this red flag.

"The consideration the government looks at is personal ability," says Eidelman. "That means they look at the responsibility that goes along with the owner's position within the company, along with economic considerations for the geographical area in which the business is located."

"I don't have a magic number at which you need to start worrying about this," Eidelman says, "but I would say that when you get into the \$800,000- to \$1 million-per-year range, it might trigger some interest."

A spokeswoman for the IRS declined to comment on those figures, but she said that "generally speaking, the test of reasonableness applies to an individual's facts and circumstances. There's no hard and fast rule for what [figure] might trigger IRS interest."

Avoiding Big Changes

One way to avoid excessive-compensation problems, accountants agree, is to keep your salary and any increases fairly regular from year to year.

"In a perfect world, you would get a steady increase each year," Eidelman says. "But even if you do have one big [pay] year, you might still be able to justify it if you're in a cyclical business and could argue that this year's pay represents the culmination of years of work in which the company didn't perform as well."

Some companies making a lot of money

MANAGING

and paying shareholders well acknowledged, in effect, the IRS position, Eidelman says. "If an owner was taking a \$1.5 million salary and couldn't justify that by industry practice, geographical conditions, and his or her efforts, the company might indicate that \$200,000 of that income was a stock dividend. In effect, they're telling the government they understand the issue and have made a good-faith effort to comply."

Eidelman emphasizes that those figures are merely intended to illustrate his point and shouldn't be construed as specific advice.

Kinds Of Compensation

In addition to dealing with the question of whether compensation is salary or dividends, business owners must address several other tax questions, according to compensation experts.

Consider, for example, the impact of the Taxpayer Relief Act of 1997, which reduced the maximum federal tax rate on long-term capital gains on assets held at least 18 months; the rate now is 20 percent,

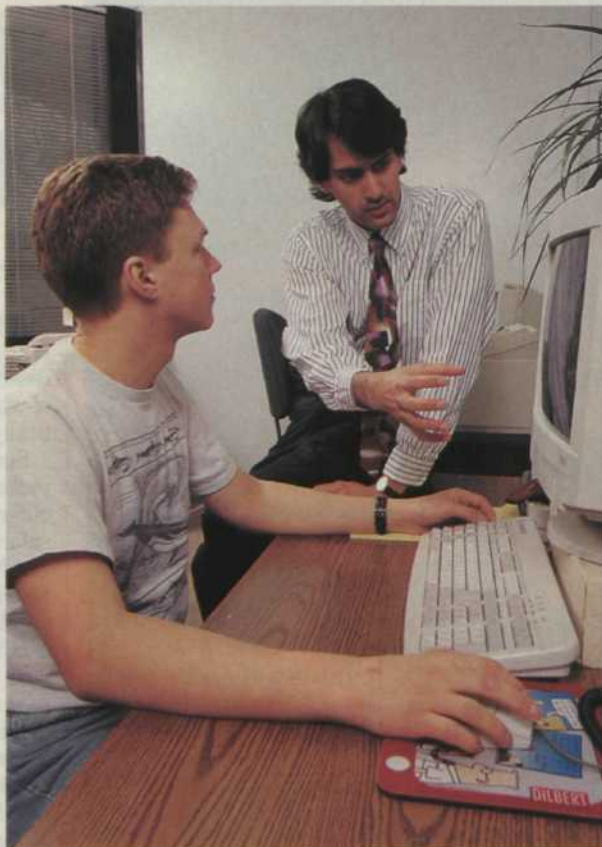


PHOTO: T. MICHAEL KEZA

Paying himself just enough to get by means more money for expanding his technology firm, says Raj Khera, right, with software developer Alexander Krumpholz.

down from 28 percent. That makes capital gains more appealing than wages from a tax perspective. (Taxpayers in the 15 percent bracket pay just 10 percent on gains on assets held at least 18 months.)

"The new tax laws argue against [a business owner] having a W-2," says Frank Dees, a senior vice president with Manchester Partners International, a business advisory firm based in Norwalk, Conn. Instead of the earnings represented by a W-2 statement of wages and withheld taxes, "you want to have long-term capital gains" to the extent possible, he says, "and accumulate wealth that way."

It also makes sense to leave cash in the company if you're planning to sell the business soon to outsiders, again to take advantage of the lower tax rate on capital gains.

"Suppose you have \$500,000 in



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your treasury and you pay yourself a \$500,000 bonus," explains Jules Schwartz, a small-business consultant and professor of management at Boston University. "That's going to be taxable at the maximum federal rate of 39.6 percent. But if you sell the company with that \$500,000 in there, it increases the value of your corporation—what somebody will pay for it—by exactly \$500,000. When you sell the company, that \$500,000 represents a capital gain to you, and the maximum tax rate on long-term capital gains is just 20 percent."

Of course, nothing is too simple when it comes to the federal tax code. Ironically, you can go too far in accumulating capital within your firm. "Once an amount is accumulated above and beyond what the Internal Revenue Service considers necessary for the operation of the corporation, there's a danger that they might assess an accumulated-earnings tax of 39.6 percent on the excess amount," explains Sandy LeDuc, a CPA at LeDuc and Sikowitz in Boston.

The S Corporation

Entrepreneurs who incorporate their firms as Subchapter S corporations don't have to worry about taking excessive compensation because S corporations don't pay income taxes, and therefore all profits must

flow through to the owners.

But they must be careful about whether they characterize those profits as salary or as "distributions" (dividends) to shareholders. Since distributions aren't subject to Social Security or Medicare taxes, the IRS watches for S-corporation owners who pay themselves too little in salary rather than too much.

"If you want to get yourself a quick audit, show a profitable S corporation making distributions without paying any salary to the owner," warns New York CPA Picker.

Determining what represents a reasonable salary for the owner of an S corporation means using the same criteria used to set a reasonable salary for a C-corporation owner—industry and regional standards, for example, as well as the owner's responsibilities within the firm.

According to Eidelman, the IRS "won't allow you to take a \$100,000 salary and a \$900,000 S-corporation distribution. In that scenario, you should probably take

"What is the pay of the owner relative to the people who report directly to him? ... We've developed some ... acceptable limits."

—Consultant
Jerry Newman

close to \$800,000 as salary. What's reasonable, with an S corporation, is generally a significant portion of the profits."

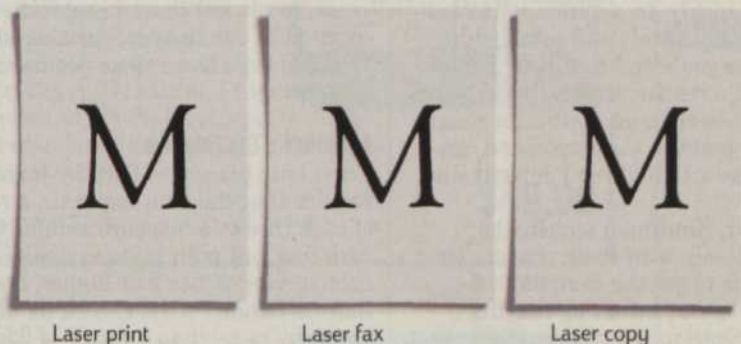
Moreover, it isn't just the IRS that can question an owner's salary. State tax authorities can do so as well. Two of LeDuc's clients recently tangled with Massachusetts, which argued that the \$1 million annual salaries drawn by the two men, who were co-owners of their business, were excessive.

"The state wanted to peg their salaries at about \$400,000 apiece," LeDuc says. "After some negotiation, they ended up settling on \$600,000. That cost their company, at the state level, an additional 5 percent income tax on the amount that was not allowed."

Other Concerns

If taxes and long-term corporate goals were the only issues confronting business owners as they attempt to set their salary levels,

Continued on Page 36



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The Case Of KRB Machinery

Deciding where to set your salary can be a challenge. Sometimes, however, getting to the right number can require more than juggling tax matters and corporate cash-flow requirements. It can take you right to the heart of how you run your company.

After 13 years as his own boss, Ken Kauffman knew that his salary wasn't what it should be. Sure, his company, KRB Machinery, was successful, even profitable, by most measures. Located in bucolic Wrightsville, Pa., a small town on the banks of the Susquehanna River, the company had become a world leader in the production of machinery used to cut and bend reinforcing steel, or, as it is more commonly known in the construction industry, rebar.

Kauffman had become a world traveler, selling his products to customers across the United States and in Europe, South America, and the Far East. But some of his employees were earning more than he was, even though he was the sole owner of the firm and still the only one signing the personal guarantees demanded by his bankers.

A Sign Of Bigger Problems

This was 1992. And although making a big salary had never been his goal, Kauffman knew that his relatively small paycheck reflected larger problems. In fact, he was borrowing money from KRB to pay personal debts.

"I didn't think the company could afford to pay me more," Kauffman says now. "Even though we were profitable, we had a negative cash flow and had difficulty paying our bills."

At that time, KRB and a sister company, Kauffman Electrical Controls and Contracting, were generating about \$5.5 million a year in revenues. Today, they generate about \$9 million.

"In the early 1990s," Kauffman continues, "it was easy to go to the bank and borrow another \$100,000 whenever we wanted it, so we

continually extended ourselves to meet our obligations, thinking we would work our way out of the debt. But it wasn't happening."

That's when Kauffman hired certified public accountant Timothy Bricker to be



PHOTO: T. MICHAEL KEZA

Hiring a financial manager for his machinery company helped Ken Kauffman, right, establish an appropriate salary for himself. With Kauffman is assembler and welder Andrew Houser.

KRB's first controller. Bricker analyzed KRB's operations and began making changes quickly. In addition to instituting expense controls and establishing production goals and forecasts, Bricker suggested a restructuring plan that led Kauffman to close an inefficient manufacturing plant in California and centralize production at his Pennsylvania location.

Together, Kauffman and Bricker worked closely with their vendors for six months to get the company's finances in order, including making arrangements to clean up past-due invoices. Then they continued to refine the company's operations to improve cash flow.

Giving The Boss His Due

Next, Bricker set about getting his boss on similar solid financial footing.

"I saw the time and dedication and commitment Ken was making to this organization, and I knew what people in that capacity [at other companies] earned," Bricker recalls. "After several years of increasing profits and positive cash flow, we've got Ken to a compensation level appropriate for the owner and president of a company of this size

in this area. Now the decision about what his salary should be has become more of a [personal and company] tax-planning issue."

Adopting a common strategy, Bricker recommends a salary for Kauffman each year that compensates him fairly—but not extravagantly—as president of the company. The salary is a wage, not a reward for ownership.

At the end of each year, when annual profitability is clear, Bricker weighs the company's cash-flow needs for the coming 12 months against the tax implications for Kauffman and the company, and then recommends what bonus, if any, Kauffman should receive.

In addition, he factors in Kauffman's desire to pay year-end bonuses to his key managers. (Kauffman also pays quarterly performance-based bonuses to all of his other employees when profitability warrants it.)

"Our theory is to stay lean and mean during the course of the year, and then, when we have good years, to reward those people who contributed to our success," Bricker says. "But I always leave some profits in the corporation."

A Banker's Confidence

Covenants placed on KRB by its bank require that the firm maintain a ratio of cash throw (a measure similar to cash flow but with more variables) to debt service of 1 to 2 or higher, and that its liabilities not exceed its net worth by more than a factor of 2.5, for the company to retain its financing.

"Those are the only two covenants," Bricker says. "Most companies have more, but we go to great lengths to keep our bank informed of what we're doing, and they have a high level of confidence in us."

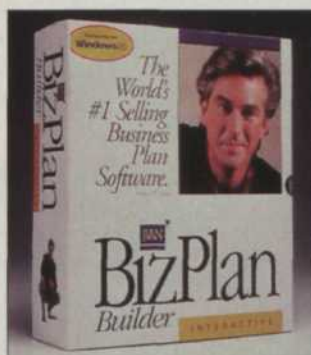
For Kauffman, achieving an appropriate salary has gone hand in hand with achieving appropriate financial controls throughout his company's operations. "Two years ago the bank finally released me from my personal guarantees," he notes, "and after being in business since 1979, that was a happy day."

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the task would be difficult enough. But smart business owners recognize that they have to consider the impact of their salary decisions on other stakeholders, too—from minority shareholders (if there are any) to key employees.

Employees may be put off by evidence that their owner-boss is getting rich off the sweat of their brow, particularly if the owner's appetite for money ignores the needs of the company or hurts the firm's ability to pay fair wages to other employees. As an owner, that may or may not bother you—depending upon how hard you find it to attract and retain skilled workers—but it ought to be considered.

"The issue is one of internal equity," says Jerry Newman, a small-business consultant and professor of organization and human resources at the State University of New York at Buffalo. "What is the pay of the owner relative to the people who report directly to him? If you look at this issue over time, you see that we've developed some clear-cut and acceptable limits. For example, the highest direct report generally makes about 65 percent of what the CEO or president makes."

Once you bring minority shareholders on board, paying yourself a fair salary is no longer a matter involving only you, your conscience, and the tax authorities. As an officer of a company with other owners, you have a legal responsibility to operate the firm in the best interests of all shareholders, not just yourself.

While setting an appropriate salary can be filled with complicating tax and planning issues, accountants and business consultants generally agree on one point: Business owners who make earning a large salary their primary objective are often most at risk of compromising their long-term success.

"I want my clients to be thinking about the business; I don't want them to be thinking about themselves," consultant Lewinter says. "The business has a life of its own, and if the business is taken care of, it will be there for a fairly long period of time. If the owner is thinking about his or her needs and putting himself or herself before the business, the business isn't going to prosper."

Thinking in those terms may mean postponing the big payoff that virtually all entrepreneurs hope to reap.

"One of the big mistakes I see people make over and over again," says Smith of Franklin Covey, "is that the minute they start making some money, they buy big cars and big houses. But egos are very expensive. If entrepreneurs can delay gratification until they are rock-solid, they can then afford those big cars and big houses." ■

If You Plan To Go Public ...

Accountants and business advisers who take a long-term view of building a successful company frequently encourage entrepreneurs to practice delayed gratification.

Pay yourself moderately at the start, they maintain, and you'll reap greater rewards in the future. The strategy is

"I'm certainly not making what I was at Herman's," Tomlin says. "But I was a lot more interested in my equity play than I was in the salary. It shows a lot more upside potential in the long term than what a bigger salary might have given me in the short term."

Frank Dees, a senior vice president with Manchester Partners International, a Norwalk, Conn., business advisory firm, says Tomlin is on the right track.

"Stakeholders of start-up companies—angels and other lenders—look with a very jaundiced eye at an entrepreneur who's looking to recoup his or her investment immediately," Dees says. "They're always looking for you to invest your blood first."

Hyrum Smith, chairman and CEO of Franklin Covey Co. in Salt Lake City, has already lived the dream Tomlin is pursuing.

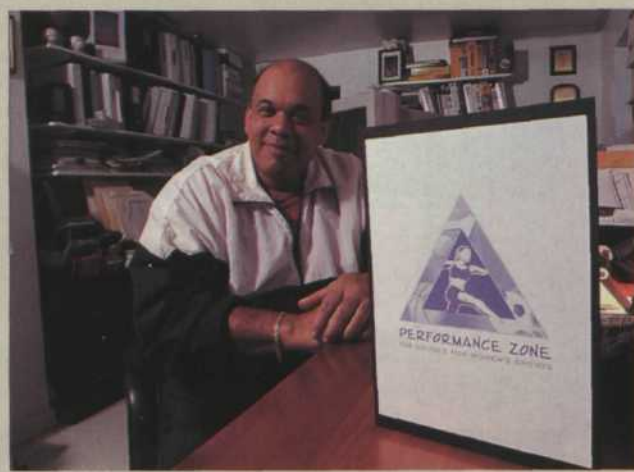


PHOTO: ©TOM SOBOLUK—BLACK STAR

The board of directors of Randy Tomlin's start-up, a women's sporting-goods retailer called Performance Zone, gave him a modest salary but a large equity stake.

especially important, they say, if your objective is to take your company public by issuing stock.

Randy Tomlin, president of a soon-to-be-launched chain of women's sporting-goods stores, has taken that advice to heart.

Tomlin is a former middle linebacker for the Washington Redskins professional football team. After his sports stint, he served as vice president of operations for the now-defunct Herman's Sporting Goods retail chain. He was working as a consultant when an assignment led to an offer to help launch Performance Zone, a women's retail business that plans to open its first store in northern New Jersey in September.

The company's launch is being financed with \$5 million raised from a number of private investors. While their primary objective is not to make Tomlin rich, they'd be perfectly happy if things worked out that way. And so the compensation committee of the company's board of directors has set Tomlin's salary in the low six figures but given him a hefty 25 percent equity stake in the new venture.

He launched what was then the Franklin Quest Co.—a provider of training seminars and creator of the Franklin Day Planner—on a shoestring in 1983. For years he paid himself just enough to get by.

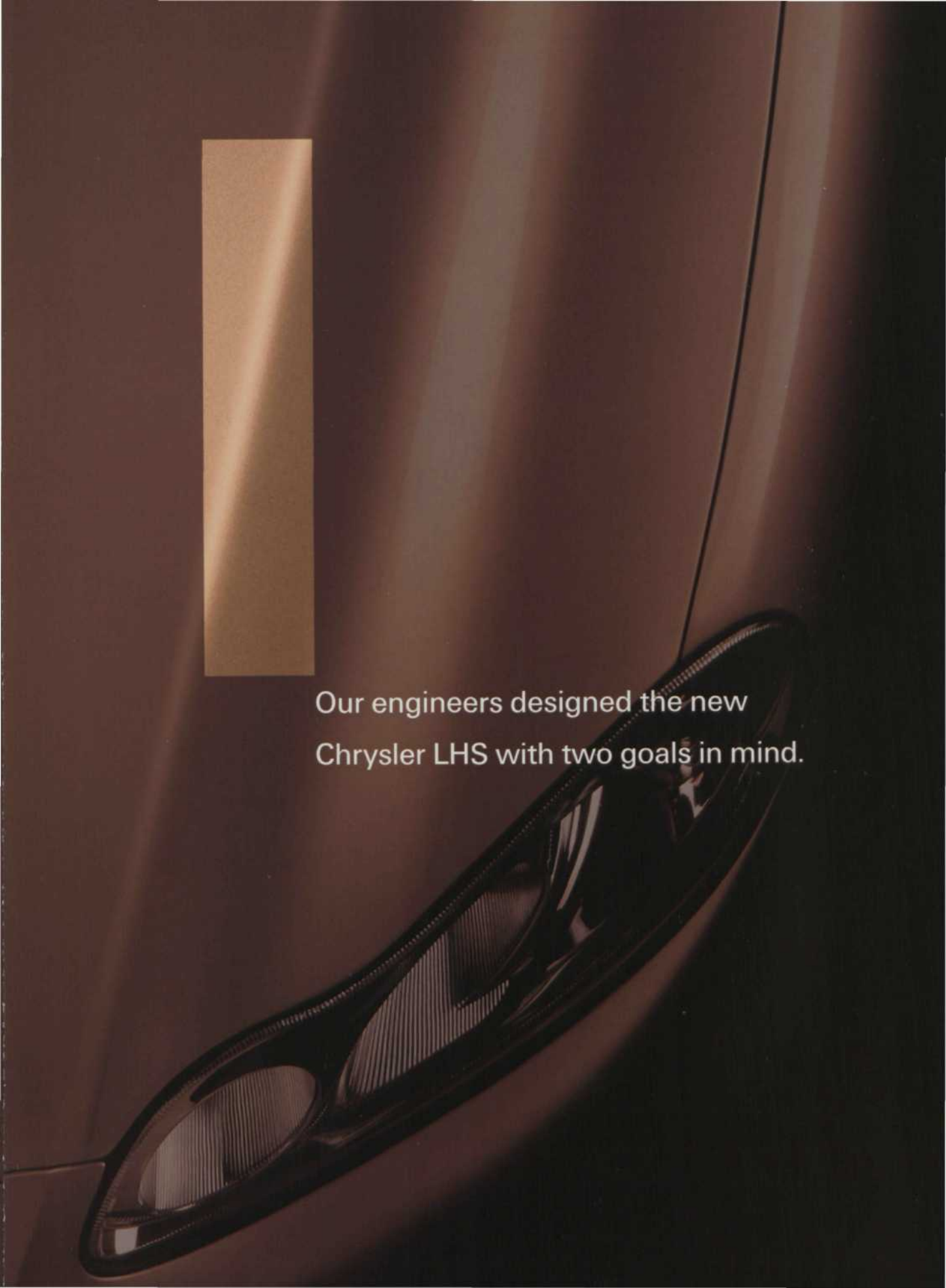
When he took the company public in 1992, the sale of stock raised approximately \$70 million, transforming him and 34 of his colleagues at the company into "instant" millionaires.

Last year, he merged Franklin Quest with the Covey Leadership Center, the business run by Stephen R. Covey—author of *The 7 Habits of Highly Effective People*—creating a firm that generates about \$600 million a year in revenues.

Today, Smith takes a salary of \$250,000 per year plus a performance-based bonus, which last year brought his compensation to about \$600,000.

"My salary today, for a \$600 million company, is not extraordinary," Smith says. "I don't get paid near what some others do. But I became wealthy taking the company public, and I don't need a big salary."

That, according to compensation experts, is a lesson for entrepreneurs everywhere.

A pair of dark-rimmed glasses with ribbed lenses is resting on the curved surface of a car's body panel. The car's paint is a dark, metallic color, and a bright light source from the upper left creates a strong, diagonal highlight across the surface. A vertical rectangular area of the image is obscured by a solid gold-colored block.

Our engineers designed the new
Chrysler LHS with two goals in mind.

On the one hand,
it screams luxury.




One of the most noticeable features of the all-new Chrysler LHS is that it gives you the luxury of driving one of the most strikingly beautiful shapes ever to leave the Chrysler design studio. Its sophisticated and advanced

styling sets new standards in automotive design; yet, somehow its lines still feel classic. Similarly, its performance engineering also brings together two seemingly opposite characteristics: the feel of a smooth, luxurious



ride and the exciting performance of a sports sedan. The latter being the result of a 3.5 liter, 24-valve, all-aluminum, 253 horsepower engine; speed-sensitive variable-assist steering; a four-wheel independent suspension; and even a low-speed

traction control system. All standard. All for the driver who believes performance and luxury should go hand in hand. The all-new Chrysler LHS. While no car can be all things to all people, the all-new LHS is engineered to be all things to you.

A close-up, high-angle photograph of the front interior of a 1999 Chrysler LHS. The image shows the driver's side seat and the center console. The seats are upholstered in light tan leather with deep vertical pleats on the seatbacks and horizontal stitching on the seat cushions. The center console is also covered in leather and features a gear shifter with a red leather boot and a handbrake with a red leather boot. The door panel on the right side of the frame shows a leather-trimmed door handle and a storage pocket. The overall lighting is warm and focused on the textures of the leather.

On the other hand,
it's exceptionally quiet.

\$28,995 fully equipped*

From the first moment you get your hands on the all-new 1999 Chrysler LHS, one point comes through loud and clear: This is a true luxury sedan that won't leave you wanting for more. From its Swiss watch-like gauges to its electro-

luminescent cluster lighting to its leather-trimmed heated front seats to the most intelligent personalized driver's seat memory system in its class, the all-new Chrysler LHS not only exudes quality, it flat-out spoils you around every



*Base MSRP includes destination. Tax and options extra.

turn, no matter how sharp. For the music-loving driving enthusiast, there's a truly remarkable 240-watt, nine-speaker CD stereo system that makes sure your ears enjoy the same high-quality treatment as the rest of your

senses. The all-new Chrysler LHS. To find out additional information, call 1.800.CHRYSLER or visit our Web site at www.chryslercars.com to learn more about the extremely quiet luxury car you're sure to be hearing a lot about. ■

The All New Chrysler LHS

Built on the belief that while

all cars appeal to our practical side,

the great ones appeal

to a more passionate side.

C H R Y S L E R



E N G I N E E R E D T O B E G R E A T C A R S

Small Business Technology



Comparing budget and top-of-the-line computers; programs that do just about everything.

By Albert G. Holzinger and Tim McCollum

HARDWARE

New PCs, New Choices For Business Owners

Buying appropriate desktop computers has always been a challenge for most small-business owners. There have been many competing brands and features but few comprehensible explanations of the pros and cons of each.

One aspect, however, had been straightforward: choosing the processor. Entrepreneurs had tended to maximize the useful life of new PCs by equipping them with the fastest processor manufactured at the time by industry leader Intel Corp. of Santa Clara, Calif.

Now, even that's not a given.

The K6 processors engineered by Advanced Micro Devices of Sunnyvale, Calif., have emerged as reliable alternatives to Intel's current low-end models, Pentium MMX processors running at speeds up to 300 megahertz (MHz).

Moreover, both the 300 MHz MMX Intel and AMD models—typically found in fully equipped PCs that cost about \$1,500—capably run the word-processing, spreadsheet, accounting, and other software used now and for the foreseeable future in mainstream businesses.

Of course, these systems are relatively slow, although they're inexpensive compared with the newest \$3,000 systems containing Intel's 400MHz Pentium II processor and a set of complementary chips mounted on a main board featuring the breakthrough 100MHz system bus.

A PC's bus is the "highway" on which information travels between the processor and random access memory (RAM), where programs reside when they're in use. For several years, the bus speed has been 66MHz. The faster the bus, the faster the

processor's raw power can be converted into productive work.

To help gauge how much additional performance a user can expect for roughly double the purchase price, *Nation's Business* tested one of the new high-end systems, the GP6-400 PC, from Gateway 2000 Inc. of North Sioux City, S.D., (1-800-846-4208, www.gateway.com).

This network-ready PC (\$3,143, plus \$95 for shipping, direct from Gateway 2000) instantly opens workhorse programs, including Microsoft's Word 97 word processor and Excel 97 spreadsheet. It also performs graphics tasks at breathtaking speeds.

The technical details: a 400MHz Pentium II processor on a 100MHz main board featuring Intel's 440BX chip set; 128 megabytes (MB) of state-of-the-art RAM; a lightning-fast graphics accelerator with 8MB of memory; fast 10-gigabyte fixed-disk, standard floppy-disk, and 32-speed CD-ROM drives; a wavetable sound system featuring three speakers, including a booming subwoofer that provides deep, rich bass tones; a modem that operates at speeds of up to 56 kilobytes per second; a fast-Ethernet network card; and a monitor with a whopping 18-inch viewable area.

This GP6-400 model also includes Microsoft's Windows 95 operating system—and a coupon redeemable for a free upgrade to Windows 98—and the new Small Business Edition of the Office suite of productivity applications (See "Time To Update Your Office?" on Page 38.)

So, which category of system—budget or state-of-the-art—is right for your small business? It depends.

For everyday work by clerical employees and managers alike, a low-end system probably will be much more than adequate. But for those who routinely perform graphics-intensive work—including Inter-



Gateway 2000 GP6-400

net-related tasks—and for others for whom time is more important than money, the GP6-400 or another PC in this elite class is a machine to die for.

A Network-Storage Product That's True To Its Name

Adding storage capacity to a small network's server computer is tricky and time-consuming. In the best-case scenario, data stored on the server is inaccessible for the day or so it takes technicians to perform the upgrade; in the worst case, data is lost.

Enter the Snap! Server, from Meridian Data Inc. of Scotts Valley, Calif., (1-888-343-7627, www.snapserver.com), a storage product that's true to its ambitious name.

This device, available in 4-, 6-, and 12-gigabyte (GB) models, provides fast, concurrent access to files on regular 10Base-T or fast 100Base-T Ethernet networks. It's compatible with the Windows NT, NetWare, and UNIX network-operating systems.

Because the Snap! Server weighs only 8 pounds and is about the size of a small briefcase, it can be disconnected easily from the network and locked up after business hours. This makes the device ideal for storing financial information and other company data that's sensitive yet must be accessed regularly by multiple authorized employees.

Best of all, it's a snap to install and configure. It takes five minutes—no exaggeration—to plug the Snap! Server into a network, power it up, and program it for use with the software provided. The product costs \$995 for the 4GB model, \$1,295 for the 6GB unit, and \$1,795 for the 12GB model, direct from Meridian Data or authorized resellers, listed on the company's World Wide Web site.



Meridian Data Snap! Server

Little, Inexpensive Things Can Make Computing Nicer

When you're chained to a computer all day, little—and inexpensive—things can make

SMALL BUSINESS TECHNOLOGY

the experience more pleasant. Following are just a few such items tested recently by *Nation's Business*.

Andrea Electronics VoiceSolutions ANC 500 PC Headset (Andrea Electronics Inc., 1-800-707-5779, www.andreaelectronics.com)

Recent improvements in voice-recognition software allow people to control their PCs by issuing voice commands and to create documents by dictating to the computer. To do this, though, they need a PC headset such as Andrea Electronics' VoiceSolutions ANC 500.

The headset has microphone technology that filters out background noise, increasing the accuracy of voice dictation. The excellent sound quality of its full-duplex headphone speakers makes the headset useful for text playback, CD audio, Internet telephony, and multimedia applications. Retail prices: \$54.95 for the wired model, \$149.95 for the wireless version.

Cirque Power Cat Touchpad (Cirque Corp., 1-888-454-3398, www.cirque.com)

Cirque's Power Cat touchpad replaces a desktop PC's mouse, allowing the user to control the system by gliding a fingertip across the pad and tapping on appropriate icons. The Power Cat improves on other touchpads by making it easier for the user

to drag documents and use commands associated with a mouse's right button. The device comes with software for adding handwritten notes, drawings, and signatures to documents. Retail price: \$79.

Logitech TrackMan Marble FX Trackball (Logitech Inc., 1-800-231-7717, www.logitech.com)

Logitech's innovative TrackMan Marble FX trackball features a large new ball operated with the thumb and the index and middle fingers. These ergonomics plus the TrackMan's four programmable buttons and unique use of optics in lieu of mechanical parts make for pointing and clicking that's as precise and convenient as it is comfortable. Once you try this

TrackMan, you're unlikely to go back to a conventional trackball or a mouse. Retail price: \$99.95.

Sharp XL-520 Desktop Audio System (Sharp Electronics Corp., 1-800-237-4277, www.sharp-usa.com)

Like most compact audio systems, Sharp's 30-watt XL-520 sports an AM-FM digital tuner, cassette and CD players, and high-quality speakers. Unlike others, you can connect a PC to the Sharp system to dramatically enhance the computer's audio

output. In all, the handsome XL-520 is well-suited to those who like to listen to music while they work and who require top-notch computer sound output. Retail price: \$249.95

SyQuest SparQ Data Storage Drive (SyQuest Technology Inc., 1-800-245-7334, www.syquest.com)

Small firms often overlook the importance of data storage and backup until they've either run out of room or run into trouble. Now, with easy-to-use devices such as SparQ on the market, they have no excuse for either problem.

SparQ is a tape drive that can store up to 1GB of data per removable cartridge. Its 12-millisecond average seek time is fast enough to allow the SparQ to be used as a second hard drive for storing documents and running software applications. And SparQ



SyQuest SparQ Drive

can back up data at 16.6 megabytes per second (MBps) in the internal model and 1 MBps in the external drive. Retail prices: \$199; \$99 for a three-pack of cartridges.

SOFTWARE

Time To Update Your Office?

There's a lot to like in the recently updated Small Business Edition (SBE) of Microsoft's ubiquitous Office 97 suite of business-productivity tools.

The new version of Office 97 SBE consists of a wide variety of full-blown applications: the Service Release 1 versions (those without many of the "bugs" found in the original products) of the do-everything Word 97 word processor and the Excel 97 spreadsheet, and new versions of the Publisher 98 desktop-publishing software, Outlook 98 information-management program, Small Business Financial Manager 98 financial-analysis tool, and Expedia Streets 98 mapping and travel-information guide.

Also included are Direct Mail Manager (a new program that facilitates large-scale mailings), the current version of Internet Explorer for browsing content stored on

the World Wide Web, and an online reference titled "Doing Business on the Internet."

Many small offices could function well using only this software suite, an accounting program, and, perhaps, a



Microsoft Office 97 Small Business Edition

sales-presentation program such as Microsoft's PowerPoint.

In short, Office 97 SBE is a lot of software,

especially considering Microsoft's aggressive retail pricing: \$499 for new users and \$249 for those upgrading from an earlier version of any component program, less a \$40 mail-in rebate.

Two component products that stand out are Publisher 98 and Direct Mail Manager.

Publisher excels at hiding powerful desktop-publishing tools beneath an interface that even novices can master. New to this version are Design Sets, which enable the look and feel of one item—a business card, for example—to be applied to others, such as a letterhead, a promotional brochure, or even a Web site.

Direct Mail Manager makes it a breeze to undertake mass mailings. The program speeds the process of importing customer and other lists from a variety of programs and filtering out extraneous information such as telephone numbers and notes. It also makes it faster and easier to rent lists from vendors such as American Business Information.

Then Direct Mail Manager guides users through the process of connecting via the Internet to the U.S. Postal Service's National ZIP+4 database to check lists for correct addresses and duplicate entries. **NB**

Here's How to Gain National Recognition for Your Business and Your Employees

**APPLY NOW FOR
THE BLUE CHIP ENTERPRISE INITIATIVE[®]**



About The Blue Chip Program



THE
BLUE CHIP
ENTERPRISE
AWARD

MASSMUTUAL - THE BLUE CHIP COMPANY
U.S. CHAMBER OF COMMERCE
NATION'S BUSINESS

The Blue Chip Enterprise Initiative, sponsored by MassMutual, the Blue Chip Company, the U.S. Chamber of Commerce, and *Nation's Business*, recognizes companies that have overcome adversities, seized opportunities and succeeded.

Since 1990, the Blue Chip program has honored more than 1,600 successful businesses. The program is designed to motivate small business owners who may be facing similar challenges and adversities.

By profiling the honorees' success stories, other businesses can learn by example. All honorees will be profiled in "*Insights and Inspiration: How Businesses Succeed*," a softcover book published by *Nation's Business*.

What Blue Chip Enterprise Initiative Honorees Receive!

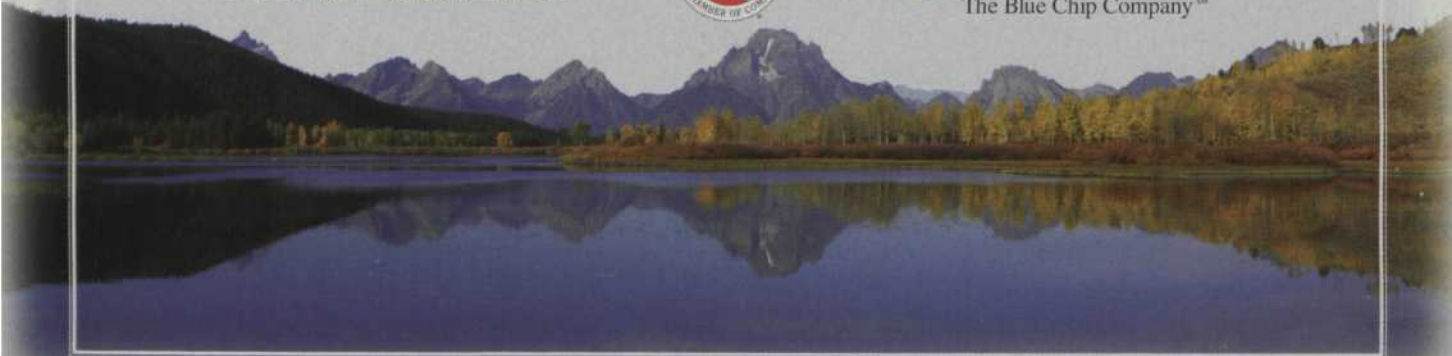
- Extensive publicity and coverage in *Nation's Business* magazine
- Success stories highlighted in a softcover book, "*Insights and Inspiration: How Businesses Succeed*"
- A one-year membership in the U.S. Chamber of Commerce, including a one-year subscription to *Nation's Business* magazine
- National print and television promotion
- Recognition at regional awards luncheons
- Community recognition and networking opportunities

Four Blue Chip Enterprise Initiative national honorees will be chosen and will each receive an all-expense-paid trip for two to Washington, D.C., to be recognized at the U.S. Chamber of Commerce's June 1999 Annual Meeting.

Nation'sBusiness
The Small Business Adviser



MassMutual
The Blue Chip Company™



You Can Apply in Just 2 Easy Steps

1. Company Profile

Name of Owner: _____

Title: _____

Company: _____

Address: _____

City: _____

State: _____ Zip: _____

Business Telephone: _____ Business Fax: _____

URL (Web Address) _____

Alternate Contact Name: _____

Title: _____

Annual Sales: _____

Number of Employees: _____

Year Established: _____

Owner's Signature: _____

Requirements: The Blue Chip Enterprise Initiative is open to any U.S. or Puerto Rican for-profit company that has been in continuous operation for at least three years and employs from 5 to 400 people. All applications require the signature of at least one of the participating company's principals. Judging is done by an independent panel of judges. Information submitted becomes the sole property of MassMutual.

2. Return Completed Application

**Additional information will be sent to you regarding
The Blue Chip Enterprise Initiative Awards Program**

Please mail to: Blue Chip Enterprise Initiative Awards Program, U.S. Chamber of Commerce,
PO Box 2048, Hartford, CT 06101 Or Fax to: 1-860-987-2596

Deadline: January 30, 1999. For more information, call 1-800-FOR-BCEI

Type of Business (Check all that apply)

- ☐ Agriculture
- ☐ Construction
- ☐ Finance/Insurance/Real Estate
- ☐ Franchise
- ☐ Retail
- ☐ Services
- ☐ Transportation/Communications
- ☐ Manufacturing
- ☐ Other (describe) _____

- ☐ Publicly Traded
- ☐ Privately Held
- ☐ Family Business
- ☐ Brief Description of

Products/Services _____

Source of Application:

- ☐ Nation's Business
- ☐ MassMutual Agent (Agent's Name) _____

- ☐ Business Colleague
- ☐ Chamber of Commerce (Location) _____
- ☐ Other _____



The Blue Chip Program Honors America's Successful Businesses!

Here Are Comments From Recent Honorees

"Our company received a tremendous amount of media attention as a result of winning a national award. A year later I can tell you that winning the national Blue Chip Enterprise Initiative has changed our business and our lives. It's also been pretty darn good to our bottom line!"

Carol P. Conway, President, Computer Rescue Squad, Cape Coral, Florida

"It was an honor to be included in the fine company of our peers that won the prestigious "Blue Chip Award." I never realized the obstacles that other companies managed to endure. The "Blue Chip Award" was an opportunity for our company and employees to celebrate not just our survival but our triumph over the obstacles."

Robert O. Baron Jr., Director of Sales, Baron Services, Huntsville, Alabama

"It was an honor to be selected as an award winner. It validated our decision-making process in developing solutions to our problems and in our approach to overcoming obstacles. It was also very informative to share ideas with peers who also overcame significant obstacles."

S. Tien Wong, CEO, Unitel Corp., McLean, Virginia

Nation'sBusiness
The Small Business Adviser



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The Blue Chip Company™



MANAGING

A Working Alternative For Settling Disputes

By Michael Barrier

When Buddy's Natural Chickens, Inc., moved into a new plant in Gonzales, Texas, in January 1990 and started expanding its work force, "the problems started coming with the people," says David Lindeman, the company's general manager.

Buddy's is a closely held corporation founded by Lindeman's father, A.M. "Buddy" Lindeman, the firm's president. The company raises and processes "natural" chickens without the use of hormones or antibiotics, feeding the chickens what it calls an "all-plant ration," with no corn. "Our chickens are a lot leaner," David Lindeman says.

Buddy's, which has its offices in Seguin, Texas, opened its Gonzales plant with a work force that at first totaled about two dozen. A rash of workers' compensation claims was the first sign of a rift between workers and management, Lindeman says. "I won't say that all of them weren't true," he says of the claims, "but a lot of them weren't."

Craig Bennight, a Corpus Christi, Texas, risk manager, helped Buddy's assemble a package that embraced affordable insurance, safety training, and, most important, an alternative dispute resolution (ADR) program to deal with workplace conflicts of all kinds.

The ADR program "is kind of the umbrella that fits all the pieces together," Lindeman says. The idea behind ADR is to resolve conflicts between employer and employee through means less costly and contentious than litigation. A successful program can save a company thousands of dollars in legal costs and hundreds of hours in managers' time. Just as impor-



PHOTO: GREG DAEMERICH

When problems cropped up at Buddy's Natural Chickens, Inc., in Gonzales, Texas, A.M. "Buddy" Lindeman, right, the company's president, and his son, David Lindeman, general manager, second from right, turned for help to risk manager Craig Bennight, third from right. Here they review expansion plans with systems manager Tom Dowdy.

tant, perhaps, it can protect a company from the demoralizing tension and bitterness that employee grievances can spread through a work force.

The U.S. General Accounting Office, in a 1997 report on ADR at several large companies and federal agencies, cautioned that "no comprehensive evaluative data" exist on ADR's effectiveness.

The report added, though, that the information it had gathered was "largely positive" and that most of the companies and agencies it studied "had data to show that their ADR processes ... resolved a high proportion of disputes."

A Three-Level Approach

"No matter what the problem is that comes up" at Buddy's, Bennight says, "we have a procedure in place to handle it." As president of Falcon Risk Management, Bennight serves as a consultant to small firms, advising them how to handle employee disputes and the company's exposure to losses of other kinds.

Devised by Chorda Conflict Manage-

By dealing with employee grievances out of court, you can protect your company without trampling workers' rights.

ment, an Austin, Texas, consulting firm whose staff includes psychologists and lawyers, the ADR program adopted at Buddy's calls for dealing with employee disputes at three levels. It begins with negotiation—informal, face-to-face talks between managers and employees—and moves on, as necessary, to mediation and arbitration, two more-formal procedures.

Mediation and arbitration, which are the best-known ADR techniques, involve bringing in outsiders. A mediator tries to help the parties themselves reach an agreement, whereas an arbitrator imposes a settlement that may or may not preclude the parties

from filing a lawsuit, depending on their agreement.

ADR programs can be structured differently from the one at Buddy's. They may involve designating someone as the company ombudsman or confidential adviser, for instance, or setting up "peer review panels" of co-workers.

Keeping The Door Open

At their simplest, ADR programs start with an open-door policy that encourages employees to bring grievances of any kind to their managers, with the assurance that no retaliation will follow.

Details such as how the complaints are expressed—whether orally or in writing—and how they are channeled depend on several factors, including the company's size and culture. The point is to bring employee grievances to light by whatever mechanism works best and to defuse as many as possible at an early stage, long before anyone is tempted to call in the lawyers.

ADR "encourages employees to exercise

MANAGING

their rights," says Mark A. de Bernardo, managing partner in the Washington, D.C., office of Littler, Mendelson, Fastiff & Tichy, a national law firm that specializes in employment law. "That's a very positive thing. There's a process in place that encourages them to come forward with whatever grievances they may have."

Usually, the employee with a complaint has a solution in mind, "and it's pretty easy to do," Lindeman says.

Adds Bennight: "Accommodate them if possible. That's how you keep people happy."

William L. Bedman, assistant general counsel in Houston of Halliburton Co., a Dallas-based construction giant, says: "If you have any kind of a grievance system that works, it does have an effect on how many people sue you. That's just human nature. If people can get their problems solved by talking to other people about them, most people would rather do that." Halliburton's dispute-resolution program is one of the most admired and studied ADR programs.

Lower Premiums, More Teamwork

Buddy's—whose sales have been growing annually by 10 to 20 percent—now has about 80 employees. Since the system was adopted, Buddy's has had two cases in which an outside mediator was called in. No complaints have gone to arbitration. "Everything else has been resolved at the negotiation level," Bennight says.

The company is now paying "roughly half" as much for insurance of all kinds as the average business of its type, Bennight says. Accidents at Buddy's are down to about one per year, he says—and there's no question that the accidents are real ones. There are none of the morale problems that arise when workers believe that one of their number is getting away with something, he says. "They're working more as a team."

Says Lindeman of his company's ADR system: "All the way down through our ranks, we've got people who believe in it."

Bennight adds: "I think the perceived fairness makes it work."

Such positive outcomes stand in sharp contrast to the waste and frustration that accompany much employment litigation. (See "Lawsuits Gone Wild," February.) In some jurisdictions, de Bernardo points out, it can take several years for a case to come to trial, with legal expenses piling up in the meantime.

"From the employer's standpoint," he says, "if you go to court, even if you win,

supportive of ADR as one of the best ways to prevent litigation," says Lawrence Kraus, president of the Institute for Legal Reform, an organization created this past spring by the U.S. Chamber of Commerce. "We want to make sure that ADR is always available," he says, and that legislation does not restrict the right of employers to require binding arbitration of grievances.

Experts agree that any small business

with more than a few employees should be looking hard at an ADR program of some kind. As Halliburton's Bedman says, "One inevitable consequence" of hiring more employees "is that people don't get along with one another."

How formal a program a company needs and the shape it should take will vary with the firm's size and culture, although the basic steps involved in establishing a program will be similar, say those experienced in the field. (See "Setting Up An ADR Program," Page 45.)

Apart from the mechanics of setting up a program, there are three basic considerations you'll need to bear in mind:

1. You'll still need an attorney.

It's a mistake to think that keeping employee disputes out of court means that you can dispense with lawyers' services.

Karl Slaikeu, president of Chorda Conflict Management, the firm that helped Buddy's install its system, says, "There are state laws and federal laws, and everything needs to fit."

In practice, that means a company should have written policies, examined by an attorney, that steer employee disputes into ADR—specifying how complaints of sexual harassment and racial discrimination should be made, for instance—and that offer employees no excuses for stepping outside the system.

"It's important that the procedures be thought through and be constructed with the advice of an attorney," Boyette says, "to make sure that rights aren't waived or things don't happen that prejudice the party's position later on."



PHOTO: © PAUL HOWELL

An effective grievance program means fewer lawsuits, says William L. Bedman, right, assistant general counsel for Halliburton Co. in Houston, here conferring with two members of his dispute-resolution team, Bobbie Tanley and L.A. Jagneaux Jr.

you lose," because litigation is so costly in time and money. The employee loses, too, since, as de Bernardo notes, "litigation is destructive of the employment relationship."

ADR offers advantages that go beyond time and money. Richard T. Boyette of Cranfill, Sumner & Hartzog, a law firm in Raleigh, N.C., points to one important consideration: ADR is a private proceeding, without the potential embarrassment of a public trial.

Moreover, through an ADR proceeding, you can do "lots of things that are not available in court," says Boyette, who chairs the ADR committee of the Defense Research Institute, a Chicago-based, nationwide organization of defense attorneys. "Anything the parties can imagine and agree on can be done," whereas the law may limit the solutions that a judge and jury can impose.

Keeping The Option Open

Supporters of legal reform have latched onto ADR as one of the most promising vehicles for resolving disputes. "We are very

C H R Y S L E R

ENGINEERED TO BE GREAT CARS



From the moment you get your hands on the all-new Chrysler LHS, one point comes through loud and clear: This is a true luxury sedan that won't leave you wanting more. To get more information on the elegant new LHS, just complete this postage-paid card and drop it in the mail. You can also hear more about it by calling 1-800-CHRYSLER or by visiting our Web site at www.chryslercars.com.

(First)

(Last)

Is this your home address? ☐ Yes ☐ No

1. When do you plan to acquire your next vehicle? Month Year

2. Do you plan to purchase or lease your next vehicle? ☐ Purchase ☐ Lease

3. What vehicles do you currently own?

Primary: Year [][][] Make [][][][] Model [][][][][][] ☐ Own ☐ Lease

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4. When were you born? Month Year

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The time to start drafting written policies is when your company is very small, with perhaps two dozen employees, says Bedman, who recommends that the policies be more comprehensive than what federal or state statutes may require. "If you're trying to manage problems," he says, "you have to get ahead of the curve."

At Buddy's, Bennight says, "even when the employee fills out a job application, there are clauses that say that if there's a dispute, they're going to go through this process. They agree not to go to court until that process is gone through. It permeates every document we have."

On the rare occasion when an employee does hire a lawyer, and Buddy's responds by citing the relevant language, Bennight says, "the attorney usually just goes away."

Outside mediators and arbitrators are available through national organizations such as the American Arbitration Association, which has 38 offices throughout the country.

ADR at least theoretically could mean less business for defense attorneys, but "I don't think [a defense attorney] can lose," de Bernardo says, "by advocating what's in the best interests of your clients."

2. Binding arbitration isn't a cure-all.

Since one goal of ADR is to cut down on lawsuits, a small business may want to require all employees to agree to binding arbitration of employment disputes as a con-



PHOTO: ERIK TONIGHTON

Alternative dispute resolution "encourages employees to exercise their rights," says Washington, D.C., attorney Mark A. de Bernardo.

dition of employment.

"Typically," de Bernardo says, "what we recommend is mandatory arbitration, binding on both sides. It's much less meaningful if it's not binding." The employee who is on the losing end of a binding arbitration cannot take the employer to court. (The employer is bound by the result, too, of course.)

Two federal agencies—the Equal Employment Opportunity Commission and the National Labor Relations Board—oppose binding-arbitration agreements, as do some congressional Democrats, but the courts have consistently upheld most of them.

The critical test, de Bernardo says, is that they "preserve the right for the em-

ployee to have the same relief that the employee would have if the employee went through the judicial system." That is to say, an arbitrator should be able to impose punitive damages as well as compensatory damages.

Whether to require binding arbitration is "a decision that every company has to make for itself," says Slaikeu of Chorda Conflict Management. "But we don't think it's needed."

If a company "rewires" itself well enough through training in conflict management and by providing other avenues for resolving conflicts, Slaikeu says, "very little winds up in arbitration or the courts—little enough that if it gets there, you say, 'Fine, let's go.'"

Binding arbitration will be "perceived as negative" by employees, Slaikeu says, if all that a company does is take away the employees' right to go to court without "rewiring" itself in other ways.

What makes binding arbitration more readily acceptable, one company's experience suggests, is a company culture that already encourages the amicable resolution of disputes.

"If there is an atmosphere of distrust in the organization, the initial implementation" of binding arbitration "might be more exciting, if you will," says Doug Amis, vice president for administration of Semiconductor Systems Inc. (SSI), a 130-employee high-tech manufacturing firm in Fremont,

Setting Up An ADR Program

If you want to set up an alternative dispute resolution (ADR) program at your company, here are some steps you can follow, based on recommendations from Mark A. de Bernardo, managing partner in the Washington, D.C., office of Littler, Mendelson, Fastiff & Tichy, a national law firm that specializes in employment law. You should enlist an attorney's help in taking many of these steps.

- Educate yourself. You'll need to understand how mediation and arbitration work, and you should explore more-informal procedures, such as an open-door policy.

- Develop a formal, written ADR policy and make sure it permeates all appropriate documents, including employment applications and employee handbooks.

- Involve your senior managers in decisions related to ADR and in implementing the program.

- Train and explain, so that managers and employees fully understand the rationale for the program and how it's going to work. It is critical that everyone buys in to the program.

- Respond to complaints quickly, fairly, and effectively. However much sense an

ADR program may make on paper, employee doubts will fester unless they see that the program is working.

- Respect employee confidentiality except when there are compelling reasons not to do so. An employee's complaint of sexual harassment, for instance, ordinarily would require confronting the accused harasser with that complaint.

- Prohibit retaliation against employees who make complaints, and discipline any manager who does retaliate.

- Establish clear rules regarding costs. If an employee complaint leads to arbitration, who will bear the costs of that arbitration, including legal representation of that employee?



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Calif. "But if people perceive that they have been treated fairly, they're more open to different ways to resolve disputes."

About five years ago, as what Amis calls a form of "fire insurance," SSI began requiring all employees to sign an agreement that they would be bound by mandatory arbitration. That policy has continued since the company was acquired in 1996 by FSI International, Inc., in Chaska, Minn.

At first, some employees disliked the idea of giving up their right to sue, but once they understood how arbitration would work, Amis says, "what little controversy there was went away." No employee dispute has yet gone to arbitration.

"Historically," Amis says, "we've encouraged employees to bring problems to their managers. Probably 90 percent are resolved there, in very informal communication between employee and supervisor."

In the remaining cases, employees can take their problems all the way up the chain of command. Binding arbitration thus was added to an already pervasive open-door approach.

3. ADR is a way to manage conflict.

When Halliburton Co. put together its ADR system, Bedman says, "we wanted to design something that dealt with conflict at the lowest elemental level that we could identify." That way, ADR can serve as "an early-warning system for a lot of problems," he says, including potential violence.

Slaikeu likewise values ADR's early-warning function. "Conflict, when it emerges, is a wonderful diagnostic indicator of something happening that you can solve," he says. "Think about it from a business point of view: What a gift."

Says Boyette, the Raleigh attorney: "The key is communication. I think a lot of disputes can be avoided if folks communicate," especially when a dispute is in its early stages. "A lack of communication, or a perceived lack of concern by one party, can promote lawsuits."

In the employment disputes he has mediated, mostly involving terminations, Boyette says, "the employers seem to be genuinely interested in resolving the disputes and avoiding the expense of litigation. The employees generally are fairly emotional. They feel that they've not been listened to or that the people who are determining their fate don't care about them."

Often, he says, the aggrieved employee "needs to vent." Boyette warns employers that they may suffer some verbal abuse.

Companies must "train their managers in how to deal with conflict. That's really the key."

—William L. Bedman, Assistant General Counsel, Halliburton Co.

For a small business, Bedman says, an effective ADR program may consist almost entirely of an open-door policy "that's coupled with the right kind of training for the managers so they know how to react to people when they do have a problem."

ADR "sort of de-legalizes the whole process, in the sense that people don't need lawyers to raise complaints," he says. "The

major problem a lot of managers have with that is that it legitimizes the questioning of authority. That's what a company's corporate culture has to be prepared to accept."

This is where the training for managers—who, in a small company, are often the owners—comes in. The most important thing companies can do, Bedman says, "is train their managers in how to deal with conflict. That's really the key."

Such training, he suggests, should center not on legal questions but on "how to listen to people and understand

their motivations and on how your own actions can be perceived. If you've only got a finite amount of money to spend on stuff that isn't going to generate profits," he suggests, spend it on helping everyone better understand human behavior.

Measuring the results of an effective ADR program can be tricky, although there's widespread agreement that ADR can significantly reduce legal costs. Slaikeu of Chorda Conflict Management says that companies such as Buddy's "that have set up systems like ours are able to reduce outside litigation expenses in the range of 50 to 80 percent."

About 3,000 employees have used the Halliburton system in some way—to an extent involving more than one phone call—in its first five years, Bedman says. He believes that "we've probably got 400 or 500 people who stayed employed longer, or are still employed, as a result of getting their problems resolved."

What is hardest to measure is not the cost savings but the positive benefits that a company realizes from ADR. Buddy's could quantify the savings it has realized on insurance, Bennight says, "but I think that would immensely understate the value of what's occurring."

He describes a sort of ripple effect: An employee with a grievance is treated with unmistakable fairness, and other employees respond by identifying more strongly with the company's best interests.

"If you just try to do the right thing," Bennight says, "it often works out." **NB**

ENTERPRISE

Minority Women Set The Pace

By Sharon Nelton

The growth in business ownership by this segment of the population is passing the rest of the field.

As the owner of GC Micro Corp., a computer hardware and software reseller in Novato, Calif., Belinda Guadarrama is a member of the fastest-growing group within the fastest-growing segment of small business. She is a Hispanic woman business owner.

Businesses are being started by minority women at a rate higher than that of any other segment of the population. And the number of companies being founded by Hispanic women is growing at the fastest rate of all, says the National Foundation for Women Business Owners (NFWBO), based in Silver Spring, Md.

"We have a wonderful opportunity for Hispanic women to join the marketplace," says Guadarrama, who has 23 employees and expects her company to bring in \$26 million this year.

According to a study released by the NFWBO last year, from 1987 to 1996, the number of businesses owned by minority women increased by 153 percent—three times higher than the rate of increase for businesses overall.

The number of firms owned by Hispanic women rose 206 percent during that period, compared with 138 percent for companies owned by Asian-American, American Indian, or Alaska Native women and 135 percent for firms owned by black women.

The study, based on an analysis of U.S. Census Bureau information, found that minority women owned nearly 1.1 million companies in 1996, or about 13 percent of the 8 million firms owned by women. The minority women's companies employed 1.7 million people and generated more than \$184 billion in sales.

Black women owned 405,200 firms; Hispanic women, 382,400; and women of Asian, American Indian, or Alaska Native heritage, 305,700.



PHOTO: EDWARD CALDWELL

Many Hispanic women, having gained valuable experience in the public sector or the corporate world, are turning to entrepreneurship, says computer-company owner Belinda Guadarrama.

The Roots Of The Increase

What accounts for such growth?

Guadarrama, 40, who is of Mexican descent, says that many of the Hispanic women in her age group represent the first generation in their families to receive a strong, formal education.

"A lot of us are also reaching the age now where we've had a lot of experience working in the public sector or working for corporations," Guadarrama adds. "We're to the point where we've got the expertise that we need to start our own businesses."

Martha J. Williams, a Chicago African-American, explains her transition into business ownership by noting, "I just saw all these fabulous opportunities."

After 20 years of experience in the plastic-injection-molding industry, she founded styleMaster, Inc., in 1991. The company makes injection-molded storage containers, and its customers include retailers such as Target, Kmart, Ames, and Bed Bath & Beyond.

Williams, 45, is expecting sales of \$20 million this year. She has 32 full-time employees and as many as 60 temporary em-

ployees, depending on the level of orders at a given time.

Both Williams and Guadarrama are representative of a trend highlighted by the NFWBO study: The greatest growth in the number of firms owned by minority women has been in areas that are nontraditional for women.

In the nine years covered by the study, the NFWBO says, the number of minority women's firms rose 319 percent in construction, 276 percent in wholesale trade, and 253 percent in transportation, communications, and public utilities.

Fields Of Promise

Bonnie Wong, executive director of Asian Women in Business, a nonprofit organization in New York City that provides technical assistance and training, says she also is finding that more of her three-year-old group's members are going into male-dominated fields.

"Traditionally, a woman's thing to do is service and retail," she says. But now she's seeing Asian women becoming manufacturers and lumberyard owners. "We have



PHOTO: ERIC ARK. JOHNSON

Storage-container manufacturer *Martha J. Williams found that as a minority woman business owner, she had to get creative about financing.*

one member who does asbestos removal."

Wong applauds the shift because manufacturing and other trades that are non-traditional for women "generate more income" and employ more people.

GC Micro's Guadarrama says computer technology is a good field for women entrepreneurs to enter because it's still young. "Areas that we do well in are areas that are not as firmly established and haven't for years and years been doing business the same way and with the same suppliers," she says. There's more opportunity where there hasn't been time for the development of "those types of networks that tend to exclude women," she says.

Wong cites changing immigration patterns as another reason for the increase in minority-owned firms, particularly those owned by Asians. "We're a young population as far as being here in the United States," she says. "It wasn't until 1965 that the United States relaxed its immigration laws to allow people from Asian countries to come here on the same basis as those coming from Europe."

The difficulties that Asian immigrants experience in the United States are another factor in the rise in the number of Asian-owned businesses, Wong says. She points out that 85 percent of Asian-American business owners are foreign-born. Language barriers and differences in culture and education often have hindered their efforts to get jobs in American corporations.

"So oftentimes, having a business is for

survival," says Wong. "If you don't open a business, you can't work."

A Friendlier Environment

Still another factor contributing to the rise in the number of businesses owned by women is an entrepreneurial environment that is friendlier toward women than it was in the past, Wong says. Equal-credit laws now prohibit discrimination against women. "It's more acceptable to have women open up a bank account by themselves or get a loan without their husband's signature."

A new study by the NFWBO, released

in April, shows that women entrepreneurs of all ethnic groups, including Caucasian, share many of the same business experiences. Regardless of color, for example, they are attracted to business ownership for the same reasons—70 to 80 percent of each ethnic group of women entrepreneurs said that improving circumstances for themselves and their families was a strong motivation for starting their own business.

Being their own boss was the most popular reward of business ownership in all groups.

But minority women business owners were less likely than Caucasian women entrepreneurs to have bank credit, and black and Native American women were more likely to have been turned down for a loan when they were starting their businesses.

"Minority women, like all women, have access to credit as their No. 1 problem," says Sherrye Henry, head of the U.S. Small Business Administration's Office of Women's Business Ownership. "They have it to a more marked degree, and this study points that up."

To compensate for lack of capital, some minority women get very creative. When styleMaster's Williams couldn't get a bank loan, for example, she negotiated with suppliers. If she had, say, an order from Target that she knew she would be paid for within 30 days after delivery, she would persuade her suppliers to give her 90 to 120 days to pay them.

Her "collateral," she says, was the fact that she was shipping to a well-known customer and that the suppliers, over time, had gotten to know her. She would tell them, "Here's an opportunity for you; here's an opportunity for me."

But sometimes, minority women entrepreneurs—like any other entrepreneurs—just don't have the knowledge or experience necessary to get the capital they

For More Information

Single copies of the National Foundation for Women Business Owners report "Women Business Owners of Color: Challenges and Accomplishments" are available for \$45.95 each from the NFWBO, 1100 Wayne Ave., Suite 830, Silver Spring, Md. 20910-5603; (301) 495-4975. (Members of the National Association of Women Business Owners, with which the NFWBO is affiliated, can obtain the report for \$29.95.)

"Trends Among Minority Women-Owned Businesses—1996 Facts on Women-Owned Businesses," a study pub-

lished last year by the NFWBO, is also available. It is priced at \$70 per copy, or \$39.95 for NAWBO members.

For additional information on women business owners and educational programs available to them, visit www.onlinewbc.org, the Online Women's Business Center, a six-language World Wide Web site created by the U.S. Small Business Administration's Office of Women's Business Ownership. Or check the blue pages of your telephone directory for the Small Business Administration office nearest you.

Growth Of U.S. Companies Owned By Minority Women

Percentage Increase From 1987 To 1996



SOURCE: NATIONAL FOUNDATION FOR WOMEN BUSINESS OWNERS

CHART: KATHLEEN VETTER

need. Guadarrama recalls that the first time she tried to get a loan, the bankers told her they weren't interested and didn't even give her an application.

Now she knows she wasn't as prepared as she should have been—she didn't know what a banker would be looking for or how to present a financial statement or a business plan. To bone up, she attended seminars sponsored by the Small Business Administration and hired a consultant to help her assemble a loan package.

Staying In Touch

For many minority women, networking with others in their own ethnic group is invaluable. Guadarrama belongs to several local Hispanic chambers of commerce—but not because she's seeking additional business. Most of her clients, such as the U.S. Defense and Energy departments, Chevron, and Lockheed Martin, are national.

"I'm joining the chamber because I'm interested in talking to other successful Hispanic business people" and because she

thinks she has acquired information in her 13 years as a business owner that she can share with other Hispanics, she says.

She says it's "very important as we become successful that we look back and see who needs a helping hand."

But networking with people outside one's ethnic group is important, too. Even though Asian Women in Business was

formed to educate and help Asian women entrepreneurs, Wong says, "we have to do business with the wider world."

Her group has held meetings with the Manhattan Chamber of Commerce and with African-American and Hispanic groups to increase member contacts with a broader business population.

Access to credit still poses difficulties for minority women entrepreneurs, as do cultural and language differences in some instances. And some say they still have to work very hard to be taken seriously. By most accounts, however, minority women business owners say they are thriving, and by generating more than \$184 billion in annual sales and employing nearly 1.7 million people, they are certainly contributing to the U.S. economy.

Says Guadarrama: "I'd like to see that... as we go into the new millennium, we just overwhelm everybody with how many successful minority women-owned businesses we've got out there."

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FINANCE

Cheap Funding Through Bonds

Small-issue industrial development bonds, though paperwork-intensive, offer inexpensive capital.

By Juan Hovey

Need capital for an expansion program? Consider using small-issue industrial development bonds—and prepare to dig through a pile of paperwork.

In essence, small-issue industrial development bonds, or IDBs, give small and medium-sized businesses access to the cheap capital available in the marketplace for tax-free municipal bonds. Laws in every state give cities and counties authority to issue IDBs, often through local economic-development commissions. Other governmental bodies, such as port authorities, may hold the same power, along with state-level economic-development agencies.

In a typical deal, a city council approves your project and issues the bonds—in essence, corporate bonds disguised as tax-free municipal bonds, which are sold to any interested investor—with the proceeds financing, say, the purchase of equipment or construction of a plant.

Federal law allows you to raise as much as \$10 million using IDBs, also known as industrial revenue bonds, at interest rates ranging from half to three quarters of the prime interest rate, to be repaid over a period of as long as 30 years, according to Aaron Mindel, executive director of the Council of Development Finance Agencies, a trade group based in Washington, D.C.

There is no minimum on how much you can raise, but transaction costs, which range from 2 to 5 percent of the total bond issue, eat into your interest savings and make deals of under \$1 million uneconomical, Mindel says.

Creating Jobs

In any case, given the low interest rate, IDBs give you cheap capital indeed—maybe the cheapest capital you can get.

In 1996, the most recent year for which

figures are available, businesses nationwide raised \$2.7 billion in capital using small-issue IDBs, Mindel says. Michigan led the states with \$281 million, followed by Pennsylvania with \$145 million.

States promote IDBs because the plants and equipment they finance generate jobs; in fact, to be eligible, you have to show that your IDB deal will create jobs. The states use similar bonds to finance low-cost public housing and certain other programs, and because federal law caps how much money each state can raise for all its bond programs, business interests compete with other groups, such as public-housing proponents, to tap this source of capital.

Put another way, you have to jump through some hoops to get this money.

For starters, there's the paperwork, as Christopher Holding, chief financial officer for Ashley F. Ward, Inc., of Mason, Ohio, discovered when his company did a \$2 million IDB deal to purchase new manufacturing equipment last year.

Founded in 1908, Ashley Ward makes precision steel machine products. The company employs about 270 people in Ohio, Indiana, and Florida and expects to generate revenues of \$36 million this year.

"The first thing that happens is that you get this big questionnaire from the state," Holding says. "It's pretty involved; you have to describe your project in great detail and supply lots of backup documentation."

Holding had to complete a second form certifying that the bond proceeds would create jobs, thereby qualifying the interest income as tax-exempt to the buyers of the bonds.

From the standpoint of local and state governments, the attraction is the jobs cre-

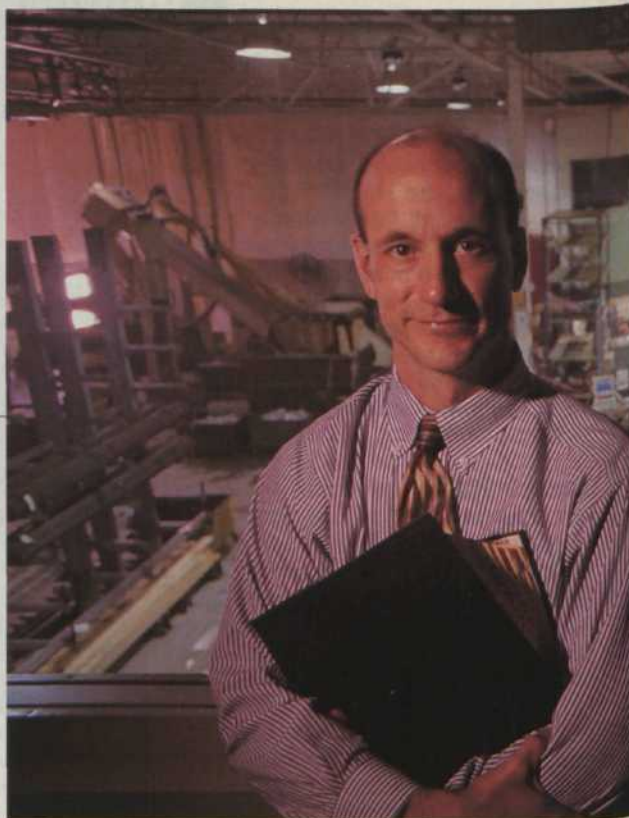


PHOTO: GUM CALLAWAY

Despite the laborious documentation and approval process required, Christopher Holding of machine-products maker Ashley F. Ward, Inc., is glad he obtained expansion capital through small-issue industrial development bonds.

ated by IDBs. States don't consistently tally the numbers of jobs created by IDBs, but as a rule, each \$50,000 in capital raised by IDBs probably generates one job, Mindel says. Given the \$2.7 billion in IDBs issued in 1996, he says, the capital probably created more than 50,000 jobs.

After a company supplies the required documentation to the state, "then you've got to get your city council to approve the project," says Holding. "And because our expansion was in two different counties, we had to get the two counties to approve it, too."

A Mountain Of Paper

Martin J. "Joe" Kelly, a bond specialist with the Ohio Department of Development, says there's no way around the mountain of paperwork. Among other documents a business owner must fill out, there are a "bond form" and a "tax supplement" to determine whether the expansion project or purchase of equipment complies with federal and state tax laws. These two documents alone comprise about 40 pages for Ohio deals, Kelly says. The paperwork burden is similar in other states.

All the documentation must pass muster before bond counsel, a private lawyer spe-



This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.



"The final documentation arrived from our bond counsel in a volume about 4 inches thick. It looks very impressive," Holding says with a laugh. "You put it on a shelf in your office and people think you're smart."

Some bonds end up in the hands of institutional investors such as pension plans and life insurers; private investors also buy them.

The income on IDBs flows to the bondholder free of both federal and, in most cases, state income taxes, just like the income on municipal bonds. This makes for plenty of demand and a liquid market.

For the business owner, the paperwork can be the downside to doing an IDB deal. Holding knew this ahead of time, and he simply decided to commit to the project. In all, he says, it took him about three months to complete the transaction.

The upside is the inexpensive capital. Ashley Ward sank \$1.2 million into the construction of a new plant and an additional \$2 million into purchasing equipment for the plant and for an existing facility. The company raised the construction

money privately, choosing not to use IDBs as a source for this capital because Ohio, like many other states, requires that you pay prevailing wages, generally union wages, for construction projects financed by IDB capital.

Of course, this restriction doesn't apply to equipment purchases, so Holding took on the paperwork tiger and banked a good chunk of capital at a low cost. The company will amortize the \$2 million over 10 years at a variable interest rate of around 3.5 percent.

Holding's firm pays an additional 0.0125 percent to its bank annually over the 10 years for a letter of credit guaranteeing the company's ability to make good on the obligation.

Time Well Spent

"It took a great deal of my time—a lot more time than it would take to get a bank loan," Holding says. "But we knew that going in. And the 10-year term and low costs are hard to beat. We might be able to push our bank to seven years on an equipment loan, but nobody likes to go 10 years."

Notwithstanding the paperwork, would Holding do it again?

"Oh, yes," he says. "You bet we would, if we had the right project and needed equipment and machinery, because of the long-term payback and the low interest rate. It's cheap money."

NB

Juan Hovey is a free-lance business writer in Thousand Oaks, Calif.

cializing in tax-exempt bond issues, Kelly says. Once bond counsel approves the deal as complying with federal and state tax laws, the bonds are issued, and an underwriter—often a stock brokerage—takes them to market.

Negotiating An IDB Deal

Raising money with small-issue industrial development bonds (IDBs) means leaping over some hurdles, and if you want the process to go efficiently, you'll need help from people who know how to complete an IDB deal.

The key member of your team will be a bond counsel—a private attorney with expertise in public-financing techniques, including small-issue IDBs. Most big law firms offer this expertise; ask your attorney and your banker for referrals. Your mayor's office or county commissioner generally will also know who does bond work.

Your bond counsel will determine whether your project complies with federal tax law and will make sure you can get the funding, according to public-finance specialist Wooten Epes, a partner with Kutak Rock, a law firm in Little Rock, Ark. The firm has offices in 11 U.S. cities, and its public-finance practice is

among the largest in the country.

The federal government caps the amount available each year for small-issue IDBs in each state, and the states themselves decide how much to make available for private businesses and how much for projects such as public-housing construction. Consequently, getting the funding isn't simple.

Next, Epes says, you'll decide who will issue your bonds. Cities and counties issue IDBs or delegate their authority to do so to local economic- or industrial-development agencies; some states also issue IDBs. But not all issuers offer the same deals, Epes says, and it pays to shop.

You must decide how and where to sell your bonds, and on what terms, Epes says. You'll need an underwriter—often a local stock brokerage—to sell your bonds to the public or, alternatively, an adviser to sell your bonds to private investors.

"This is all negotiable," Epes says. "You

need to ask questions at every step of the way and not take what you're told right off the bat. There are many options, and your advisers should know these options and exercise them efficiently."

For example, some states pool IDBs to cut borrowers' costs, Epes says. Some issuing authorities charge fees; some don't. Some offer "credit enhancements"—low-cost letters of credit, bond insurance, or even guarantees—to cut the interest your bonds draw.

Once you negotiate the details, you'll have finished the hard part, Epes says. The bond counsel and underwriter prepare the documents and close the deal. Generally you will receive the proceeds of your bonds about 60 days after you assemble your team of advisers.

And the paperwork? "It's voluminous," Epes says. "In fact, it can be overwhelming to business owners doing their first IDB. That's why you hire a bond counsel and underwriters. It's their job to make these deals as easy as possible on the business owner."

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Nation's Business
The Small Business Adviser

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'Roll-Up' Firms Want You

By Dale D. Buss

Two years ago, Deborah Cross was feeling overwhelmed by the demands of managing Hearing Dynamics Inc., a chain of San Diego-area audiology clinics that she had built lovingly over 14 years. She was frustrated by the lack of capital for expansion and for improved marketing. She also wanted to spend more time at home with her young son.

Then Sonus Corp. came along, buying Cross' company in late 1996 as part of its "roll-up" of dozens of local and regional audiology clinics nationwide.

The Portland, Ore.-based consolidator took ownership responsibilities off her hands, infused Hearing Dynamics with big-company resources, and gave Cross, who joined Sonus as regional administrator, more time to spend with her family. "I absolutely believe in what the company is doing," says the 42-year-old former entrepreneur.

But Sonus' bid for Mark Toscher's California company, Audiologic Associates of Santa Barbara, which provides services similar to Cross' company, faltered on reservations he shared with his partner.

"There was going to be a little too much looking-over-the-shoulder stuff for us to swallow," Toscher says. "And the amount of money upfront wasn't enough that if it didn't work out, we could say, 'We're out of here.'"

Like Toscher and Cross, an increasing number of small-business owners are finding themselves in the path of a roll-up these days. Also known as "build-ups," "buy-and-builds," or even "poof" companies because of how quickly they materialize, roll-ups involve an investment group's rapid-fire purchase of a number of independent businesses in a given market segment and their consolidation under a single, new corporate umbrella.

Closely related are sudden acquisition

sprees by existing companies that become consolidators as they seek a new competitive critical mass.

The Meaning For Main Street

The rationale behind a roll-up is to reap economies of scale by centralizing functions such as purchasing, accounting, and human resources. Because roll-ups take root in highly fragmented markets, they don't necessarily threaten the survival of the re-

There are pluses and minuses to selling your firm when an investment group is buying up independent businesses in a market segment.

money from America's mom-and-pop multitudes—and vice versa.

"Main Street is not putting up much of a fight; in most cases, it's putting up a 'For Sale' sign," says David M. Scharf, an analyst for San Francisco-based Montgomery Securities Inc. He calculates that roll-ups have raised more than \$8 billion in investor capital in the United States since 1994.

Actually, that torrid pace may be cooling a bit this year. In recent months, for example, several roll-ups in Houston—a hotbed for consolidators—failed to complete IPOs.

A few public roll-ups already have unraveled somewhat, such as TeleSpectrum Worldwide Inc., based in King of Prussia, Pa. Last fall, a year after trumpeting its entry into the Boston market, the telemarketing-services consolidator shut down its four Massachusetts sites and cut 400 jobs as its stock price plummeted from a high of about \$18 a share early last year to as little as \$3 a share in December.

"Some roll-ups won't last because they're being put together without a lot of thought," says Carl Thoma, a partner in Thoma Cressey Equity Partners, a

Chicago-based firm that has financed more than 45 roll-ups and other consolidation plays. "It's like getting married after one date: The odds probably aren't as good as they'd be if you had a longer relationship."

A Broad Phenomenon

Although the jury is still out on the roll-up phenomenon as a whole, many small-business owners can't wait until the final verdict. They're being approached now with opportunities to sell, and some even have a choice of roll-up suitors.

Roll-ups already are active in dozens of industries—services as well as goods—



PHOTO: © ROBERT BURROUGHS

When a roll-up firm, Sonus Corp., offered to buy Deborah Cross' chain of audiology clinics, she was all ears; now Cross—here in a booth used for hearing tests—is a regional administrator for Sonus.

maintaining independent businesses. In fact, many independents worry more about missing a great selling opportunity if they say no when a roll-up comes knocking. Typically, the businesses that are bought maintain local management while the parent company focuses on building the regional or national entity.

The payoff for investors in the roll-up comes when the consolidator takes the new company public with an initial public offering (IPO). Stock in the new public corporation becomes part or all of the currency for buying out owners.

Roll-ups, in fact, have become the most popular way for Wall Street to make

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ranging from temporary-staffing companies to coffeehouses, candy makers to automobile dealers, nostalgic-collectibles companies to floral wholesalers, and limousine services to funeral homes.

"And I don't even think we've scratched the surface in terms of the number of industries that are subject to roll-ups," says Howard Ross, a partner in Arthur Andersen & Co.'s Philadelphia office and architect of the TeleSpectrum roll-up as well as many trouble-free consolidations. "Every time I turn around, I'm amazed that there's another industry that no one ever thought of—court reporters, for example. There are now four of those [roll-ups] going on around the country."

A common roll-up scenario involves owners who founded their companies after World War II and now are looking for a strategy to exit the business. Cash and stock yielded by a roll-up agreement suddenly makes these entrepreneurs' stakes in their companies very liquid.

A roll-up can be the salvation for a family business facing a management vacuum in the next generation. It can be an antidote to poor estate planning. Or it can be a welcome solution for a founder seeking an exit strategy, as it was for Mike Nothum Sr.

Nothum founded his heating, ventilation, and air-conditioning firm in Tempe, Ariz., in 1962. By the time the roll-up offer came, his son, Mike Nothum Jr., had spent 19 years building the firm's revenues from \$2 million a year to \$35 million, making it one of the strongest companies in its market.

Meanwhile, the son had slowly built his stake in the company to about 50 percent with the intention of buying out his father completely in the next few years.

"But the detriment of having a rapidly growing company, without having 100 percent ownership of it, was that it became more difficult to buy extra pieces of it every year," says the 43-year-old Nothum.

So he decided to become a charter member of a Houston-based roll-up, signing on as chief operating officer of the company that is now called Comfort Systems USA while his father sold most of his stake for cash.

"It was great for him: Here's a man who already had devoted most of his life to building a business but who now was at the tail end of his career," says the younger Nothum. "Instead of waiting five to 10 years to get paid off by me, he got his money within 24 hours."

As you make your own decision about roll-ups, consider these suggestions that have emerged from the comments of people knowledgeable about the trend:

Know your suitor. Jonathan Karp, a shareholder in Reish & Luftman, a management consulting firm in West Los Angeles, says to keep in mind that the transaction consists of two parts: investing in a business and selling your company. If

added to your own net worth," says J. Del Walker of Pannell Kerr Forester of Texas PC, a Houston-based consultant to closely held businesses. "But just being the general manager of a division of a transportation company, say, isn't too sexy. You may start thinking, 'I don't get paid enough to do this stuff.'"

Steven Weissman chose not to pursue a roll-up bid for Kinetic Information, his three-person high-technology marketing and consulting company in Waltham,



PHOTO: ©DON STEVENSON

By becoming a charter member of a Houston-based roll-up, Mike Nothum Jr.—now chief operating officer of Comfort Systems USA—helped his father exit their heating business with cash on the barrelhead.

you take stock in a roll-up and join its management team, your livelihood and financial security now will be largely tied to that company.

Especially if the roll-up protagonist is not a well-known local player in your industry, make sure you know with whom you're dealing. Consult your regular advisers but also, perhaps, broaden your sources of advice to include investment bankers or venture capitalists. Talk to roll-up architects.

"The main thing is to team up with people you respect, who understand your business and with whom you can enjoy working for the long term," Chicago financier Thoma says. "Don't get caught up in the euphoria of the moment."

Search yourself. There's no better time to decide whether you really want to be a business owner, to become just an active participant, or to go fishing for a while and live off your proceeds.

"It's one thing to run a mom-and-pop business because everything you do is

Mass. "It's very important to understand what you're looking to get out of it, whether it's financial gain or personal growth," he says. "Those two are not always joined at the hip. If you can find a circumstance where you can get both, that's the one you grab."

Prompted by the roll-up bid, Weissman did a lot of introspection that led directly to a decision about how to improve his company instead of selling out.

"It became apparent that in order for us to continue to grow, what we really needed was resources to boost sales," he says. "So we ended up hiring a salesman, which was a stretch at our size. But we decided it was something we couldn't afford not to do."

Examine terms carefully. Make sure the valuation of your company is fair, reflecting not only a multiple of your earnings but also your expenses, growth prospects if you stayed on your own, the quality of your management team, and the outlook for your industry.

Leaders Of The Roll-Up Charge

While consolidation mania is partly about making hired managers out of autonomous business owners, the flip side of the trend—where the roll-ups actually are born—is producing plenty of new entrepreneurs. Meet a few of them:

Jonathan Ledecky is one of the poster boys for roll-ups. Ledecky founded one of the big originals, Washington, D.C.-based U.S. Office Products, in 1994 and has fostered its growth to a \$3 billion company today.

Now, also from Washington, he's nurturing USA Floral, and he's launching his biggest roll-up effort ever, Consolidated Capital, a sort of catch-all concept that intends to roll up whatever businesses seem to make sense.

He emphasizes an approach that he calls "corporate democracy" to satisfy owners and their employees who join his company. "You have to be tremendously sensitive to the owner who's selling his or her baby to you," says Ledecky. "And if you tell them you're going to do 'A,' you must do 'A.'"

It seems to work. Ninety-five of the first 100 floral-trade companies that he approached turned him down initially, but 72 of them eventually joined, he says, and 96 percent of his original employees at U.S. Office Products companies are still with him.

Steve Kerrigan, chairman and CEO of Coinmach Laundry Corp. in Charlotte, N.C., was part of a group of investors that acquired the 48-year-old regional coin-laundry company in 1995 and used it as the vehicle for a roll-up.

The company had made two major acquisitions by the time it went public in 1996, giving it control of about 240,000 machines and 7 percent of the national coin-laundry market.

Now, Coinmach Laundry has made 50 acquisitions, has 19 percent of the market, and is on its way to a projected 30 percent in the next few years.

"I like to say that we're only in the fifth inning of our consolidation," says Kerrigan, who got his start with the company as the chief financial officer of its predecessor for seven years. "We're a successful roll-up because we're integrating companies, not just accumulat-



PHOTO: DALAN JAKUBIK

An innovator in the grave-marker industry, Kurt Swenson of Rock of Ages Corp. in Graniteville, Vt., is buying out quarries and manufacturers as well as retailers with the aim of building a national brand.

ing companies. There's always a customer at the end, and we believe you have to be able to deliver service to them that is at least as good as what they got before."

Kurt Swenson is proof that roll-ups really are a cradle-to-grave concept. Swenson is busy building his 115-year-old, formerly family-owned company into the nation's premier roll-up of the grave-marker industry.

Rock of Ages Corp. in Graniteville, Vt., formerly operated only on the

quarry and manufacturing side of the business, but Swenson—the firm's chairman, president, and CEO—is working to integrate companies in that sector with memorial-retailing companies to create an entity that's new to the industry in size and scope. Revenues in 1984 were \$24 million, but they rose to \$54 million last year, and Rock of Ages went public last October.

"Reaction has been very good" from buyout targets, Swenson says. "I think the reason is that our company has a long history in the business, and [retailers] we're talking to have been our customers for a long time. They know who we are."

The next major element of his strategy, he says, is to build Rock of Ages into a national brand.

Steve Harter, president of Notre Capital Ventures II in Houston, is one of the few legitimate contenders for the title—now held by Ledecky—of "father of the roll-up."

Harter already has taken seven companies public, including Comfort Systems, US Delivery, Coach USA, and Metals USA. He sees today's consolidation trend as serving the same sort of useful, rationalizing purpose for America's economy that the creation of Standard Oil and U.S. Steel did a century ago.

Harter still seems a bit taken aback by the idea that he runs a company that is leading the roll-up charge. "I went from being an accountant with a local environmental-services company that was part of one of the early roll-ups to being a [mergers-and-acquisitions] guy," he says. "We had [representatives

from] 250 institutions show up for our recent conference."

Besides spawning and cultivating roll-ups, what most concerns Harter about the phenomenon is the rise of financially oriented roll-up architects who, he says, don't know what they're doing.

"I've got some concern about guys who have never operated in consolidating companies," Harter says. "A lot of bad deals are going to get done because of it, and we may end up with the same black eye as [financiers] did during the junk-bond era."

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Carefully consider the cash-versus-stock balance: While cash is a bird in the hand, the roll-up likely will discount an all-cash offer by 15 to 25 percent, Walker says, because prospective IPOs prefer to use their shares as currency.

And, of course, many cash sellers have been gnashing their teeth over what might have been—how much more valuable the stock in their roll-up is now than it was then—because of the bull market.

Ty Dickinson, 37, had envisioned expanding his \$12 million floral distributorship, Johnson's Roses in Woburn, Mass., under his ownership until USA Floral Products Inc. approached him last year. He and co-owner Pamela Dickinson, his wife, sold out to the roll-up, and now he is on the board of Washington, D.C.-based USA Floral while still running Johnson's Roses.

Dickinson accepted 70 percent cash from USA Floral. "I was being risk-averse when it was formed," he says, "because it didn't have Morgan Stanley as our investment banker at that time, or Bankers Trust as our senior bank. I was pretty much trusting the 'story' that it would work. As it turned out, I would have been better off taking the 100 percent in stock." The company's shares recently traded for about \$19, up from the \$13-a-share price of last October's IPO.

Read the employment terms' fine print. Employment terms make up another crucial aspect because corporate ownership and the strong will of a former entrepreneur working in a collective environment, even with a lot of autonomy, "are guaranteed to clash," says Reish & Luftman's Karp. And employment contracts, he says, typically are finite.

For example, once Philip Starr looked at the paperwork accompanying a roll-up bid for his Los Angeles-based vocational-rehabilitation concern last year, his view of the deal soured. "We got a three-year contract, then at the end we were 'at-will' employees, so we could be terminated anytime," says the co-owner of MCS Rehabilitation Inc. "That was on top of finding out that the principals of the company were going to get a whole lot more stock than I was." Ultimately, Starr chose not to sell.

Get in early. Terms likely will be more liberal the earlier you're approached, and often the founding members of a roll-up—like Nothum of Comfort Systems—enjoy the most-privileged positions.

"The founding companies get money out of the deal when they first go public and they still own their own companies," says Donald McKay, CEO of Tougher Industries Inc. in Menands, N.Y. The company is a large regional contractor that is competing with the

customers aren't necessarily in conflict, says Jonathan Ledecy, architect of USA Floral and of one of the first major roll-ups, U.S. Office Products, also based in Washington. He explains that U.S. Office Products' more than 200 local companies use their own identities in local promotion but note that they're "a U.S. Office Products company. They're getting the benefit of a brand as a marketing tool, and they can go to the customer and say, 'We're part of a larger company,' but the people

they're dealing with—the customer care and contact—haven't changed."

Consider your employees. The specter of becoming part of another TeleSpectrum Worldwide—where a roll-up faltered quickly and slashed the jobs once provided by a local owner—is one of the worst nightmares of entrepreneurs who are considering selling out to a roll-up.

Yet allowing more career-advancement opportunities for their employees is one factor that attracts many business

owners to a roll-up. That weighed heavily, for example, in the decision by Stephen Schramka to sell his two-location, 106-year-old, family-owned funeral-home company in suburban Milwaukee. He sold to Equity Corp. International, a company in Lufkin, Texas, that owns nearly 300 funeral homes across the country.

"Family members now have a chance at some career opportunities—such as management or stock ownership—that there's no way they would have had as long as we remained a small, independent company," Schramka says.

Keep the door ajar. Circumstances change, your competition toughens, rivals sell out, deals sweeten. Even Kinetic Information's Weissman says he has never said never to the roll-up that approached him last year. "I'm proud of myself for not rushing in, and I'm certainly more circumspect now," he says. "But they're still expressing some interest, and so am I. The conversations aren't over."

NB

See also "Avoiding Pitfalls When Selling A Business," in *Small Business Financial Adviser*, Page 25.



PHOTO: STEVE CHAPPELL

When a roll-up bid came along, Steven Weissman of Kinetic Information, a high-tech marketing company, did some soul-searching and decided to improve the firm rather than sell out.

proliferation of roll-ups in the heating and air-conditioning industry.

Project your status a year from now: The bull market won't last forever. And roll-ups as a whole are still such a young phenomenon that it isn't possible to answer definitively the \$64,000 question: Do the entrepreneurs who have sold out become happy in their new roles as managers?

Walker says that he's encountering former owners who are finding themselves being marginalized. "They're first told to focus on operations and less on strategy," he says. "Then they find out that some of what they want to do is not consistent with company policy. ... Soon they are told that they don't even need to worry about growing their business anymore, because the roll-up is going to make its stock grow by continuing to acquire more companies."

Consider your customers. Audiologic Associates' Toscher says one reason he turned down Sonus was that, based on watching another roll-up in his industry, he concluded that remote ownership "can alienate customers" in a hands-on business such as audiology.

National ownership and coddling local

When Cupid Aims At The Workplace

By Harvey R. Meyer

At a small Midwestern company, a flowering romance between a married but separated partner in the firm and a single secretary sparked a furor among the two other partners.

The office atmosphere became so strained that the secretary was terminated and the stunned middle-aged partner was forced out. He had to start a competing business from scratch.

The controller of a small company in the Southeast and a warehouseman made no bones about their

adulterous relationship, kissing and pawing each other ostentatiously. The two eventually left their spouses and married.

But the warehouseman soon took advantage of his new wife's high standing in the company, overstepping his authority and, unbeknown to her, sexually harassing female workers.

Fed up, the owner informed the controller that her husband was being fired for those abuses, whereupon both spouses angrily quit and threatened to capsize the firm.



As these real-life cases illustrate, love, though it may be a many-splendored thing, can have devastating consequences in small firms. Depending on the situation, office love affairs can wreak havoc on morale, productivity, and even the bottom line. Some workplace romances can even lead to sexual-harassment charges against a company.

Although firms probably can't and shouldn't try to stop love in the workplace, they should take steps to protect themselves and ensure that the work environment is healthy, professional, and productive.

But while experts say firms should consider having discussions and guidelines on workplace romance, most small-business owners—typically scurrying from crisis to crisis—have little or no inclination to deflect Cupid's arrows. Indeed, a 1994 poll by the American Management Association (AMA) found that less than 6 percent of the 485 managers and executives

who responded said their organization had a written policy on employee dating.

Writing a workplace-romance policy "is in a pile called, 'I'll get around to it someday,'" says publisher Mike Beard, owner of Beard Communications, Inc., a 16-employee firm in Edina, Minn., that puts out newspapers and periodicals.

It's quite understandable why small employers might shy away from workplace-romance issues. In part, they may feel uncomfortable discussing hearts and libidos amid flow charts and balance sheets.

They also might be hesitant to restrict relationships among employees whose long hours may leave them little time and few opportunities for socializing outside the workplace.

Many employers also are reluctant to invade workers' privacy. In a 1994 survey of 200 CEOs conducted by *Fortune* magazine, three-fourths of the respondents said co-workers' romances are none of the company's business. Many employers believe

they're in a legal twilight zone on how far they can intrude into employees' private matters.

"I wouldn't get involved [in a workplace romance] unless it was harming employees' jobs in some way," says Millie Eastlick, general manager of Kness Manufacturing in Albia, Iowa, a 42-employee firm that makes mousetraps.

Like many small-company managers, Eastlick believes romantic relationships between co-workers are acceptable if the couples are discreet and maintain a professional demeanor. "If their performance stayed the same, why should I intervene?"

Risky Business

There's no denying workplace romance can pose complications: A supervisor-subordinate relationship may inspire allegations of favoritism and evoke worries about breached confidentiality. A nasty breakup of co-workers may cause palpable tension and even lead to sexual-harassment charges. An adulterous relationship may

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strike many co-workers as offensive.

Despite these potential problems, however, only a tiny percentage of firms—less than 1 percent, according to the AMA poll—ban dating between co-workers.

"Telling people they can't date at work doesn't change anything," says Elizabeth du Fresne, an employment-law attorney with Steel Hector & Davis in Miami. "Employees will date; they'll just lie about it. And then everyone else will know about it except management."

Workplace romance is not surprising in light of characteristics of the work force. Women now constitute 46 percent of U.S. employees, according to the U.S. Bureau of Labor Statistics. And in many firms, men and women who share similar aptitudes and goals are often teamed up to work on intellectually and emotionally stimulating—and bonding—projects.

The AMA poll showed about one-fourth of those surveyed had had a romance with an office colleague. About half the time, according to the survey, the romance led to marriage or a long-term relationship. "Just like the sun comes up in the east, men and

women get together [romantically] in the workplace," says Beard. "That's the reality."

Far from frowning upon it, many observers believe romance can actually benefit companies by adding dynamism and energy to the workplace. Says Lisa Maniero, a management professor at Fairfield University in Fairfield, Conn., and co-author of *Office Romance: Love, Power and Sex in the Workplace*: "Much to my surprise, I found people involved in office romance were more interested in their work, more motivated, more energized, more creative, and extra-productive because they didn't want to get criticized by their peers that the romance was causing a falloff in productivity."

A Separate Issue

Perhaps the central concern for companies is not how to thwart workplace romance but how to manage it constructively. Before drafting guidelines on workplace romance, however, it's important to understand how it differs from sexual harassment.

Workplace romance is generally understood to be some form of intimate relationship between employees that is truly consensual.

Sexual harassment, on the other hand, is defined by the federal Equal Employment Opportunity Commission (EEOC) as unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature. Sexual harassment is conduct that affects the terms or conditions of employment or employment decisions and may create a hostile working environment for others.

The seriousness of sexual harassment is increasingly commanding employers' attention. Claims filed with



Writing The Rules On Romance

Drafting guidelines on workplace dating can be an uncertain exercise for an employer. For example, although it's legal in most states for companies to ban dating between employees, employment-law attorney Michael Karpeles says he doesn't think it's a good idea. A blanket ban is especially unnecessary where single peers work in different departments or facilities and have different career paths, he says.

Besides, Karpeles says, an across-the-board restriction may still spark lawsuits based on constitutional and common-law theories, could put the firm in an almost impossible enforcement role, and might be out of touch with workplace realities.

The Chain Of Command

A discomfiting area for employers involves a superior dating a subordinate in his or her direct chain of command. Courts generally favor employers whose clearly written and consistently applied guidelines and supervisory training are aimed at prohibiting or restricting such dating, Karpeles says. Seven out of 10 human-resources professionals in a recent survey

by the Society for Human Resource Management (SHRM) in Alexandria, Va., called for banning romances between supervisors and subordinates.

"Any form of hierarchical, direct-reporting relationship tends to have very negative repercussions," says Lisa Maniero, a management professor at Fairfield University in Fairfield, Conn. "The lower-level person has to live down the stigma that he or she is sleeping their way to the top, and that's not easy to live down. The upper-level person's judgment is questioned, especially when there's a direct-reporting relationship."

Written workplace-romance guidelines should warn about the risks of supervisors dating anyone in their chain of command. Supervisors should have to report such relationships confidentially to the human-resources director or another manager, who can also talk with the subordinate to determine if the relationship is consensual.

"Touchy-Feely" Behavior

In another area of concern, employees' flaunting of affections at work was opposed

by almost four of 10 respondents to the SHRM survey. "We want to create a good professional image for our company in our market," says Millie Eastlick, general manager of Kness Manufacturing in Albia, Iowa. Actions such as a couple emerging together from a secluded room would tarnish that image, she says.

Companies have every right to ban outward "touchy-feely" displays, says Susan L. Webb, president of Pacific Resource Development Group, a Seattle human-resources consulting firm. She likens such a rule to one barring excessive chatting at the water cooler. Both behaviors are unprofessional and don't contribute to the organization's productivity.

A Marital Exception

Firms should make certain that their workplace-romance guidelines don't single out married employees, Karpeles says, because most states and some localities have marital-status antidiscrimination statutes.

Thus, it wouldn't be prudent to bar adulterous liaisons, even though they tend to be the most unsettling and offensive to co-workers, he says.

For similar reasons, companies should not dismiss, demote, or reassign one of two workers if they get married, regardless of whether they worked together.



Workplace romance is not the same as sexual harassment, which may include unwelcome sexual advances and can create a hostile working environment.

Any guidelines should be applied consistently, should be harmonious with other company policies, and should be inclusive: Relationship rules should apply to all workers, regardless of marital status, sexual preference, or position in the company.

The guidelines also should undergo a legal review, including examination of recent

court cases and compliance with federal, state, and local laws.

Guidance On Guidelines

Even within those parameters, the guidelines should be broad and flexible. They should make room for individual situations, including the specific personalities involved and the work setting. It may help to consult other firms' guidelines and to read published material on the subject.

Robert Ford, a management professor at the University of Central Florida in Orlando, suggests drafting the guidelines with input from supervisors and employees so that they have a stake in them. Companies also should spend time educating workers about the guidelines and consider requiring employees to verify in writing that they have read and understand the document.

"You don't want to just put out a sheet of paper," says Susan L. Webb, president of Pacific Resource Development Group, a Seattle human-resources consulting firm. "If you don't talk about [the guidelines], employees might wonder what it's all about."

Because the targets of lawsuits often are supervisors, they especially should receive training on the potential explosiveness of dating co-workers. In a recent survey of 617 human-resources professionals, the Society for Human Resource Management in Alexandria, Va., found that only 12 percent of organizations trained supervisors about how to manage workplace romances properly.

Firms that take a proactive role, however, in managing workplace romance in a fair and professional manner—discussing the subject and possibly drafting guidelines on it—will likely reduce employee uncertainty on the subject and eliminate objectionable behavior. That in turn should contribute to a more pleasant and productive work environment.

MB

Harvey R. Meyer is a free-lance writer in St. Louis Park, Minn.

the EEOC rocketed from 6,900 in 1991 to 15,900 last year.

Workplace-romance issues pose their own weighty questions and concerns, suggesting that it can be worthwhile for a firm to discuss and perhaps regulate romance in the workplace.

Careful Wording

It's almost impossible to recommend one-size-fits-all guidelines for workplace romance because each small business has a different makeup. Indeed, even a firm with operations in several states may discover that what's acceptable in one facility is not tolerable in another. Additionally, each relationship may have its unique twists and turns.

But that doesn't mean small companies shouldn't consider drafting workplace-romance guidelines. (See "Writing The Rules On Romance," on Page 58.) If anything, because romances are often more noticeable in small firms and perhaps more likely to affect morale and productivity, such guidelines seem eminently reasonable.

"Guidelines help establish the employer's legitimate prerogative for the workplace to be productive—as long as there's no unreasonable intrusion on people's private lives," says Michael Karpeles, an employment-law attorney with Goldberg, Kohn, Bell, Black, Rosenbloom & Moritz in Chicago. "It also helps establish a professional atmosphere and a work environment that is fair."

When combined with a sexual-harassment policy, written guidelines that are nondiscriminatory, clear, comprehensive, and thoroughly circulated should offer additional legal protection if a workplace romance spins out of control, says Karpeles.

In fact, the very presence of the guidelines might inhibit the development of certain worrisome romances—such as those between supervisors and subordinates. "It's sad to say, but when I get around to [drafting written guidelines], probably the biggest reason for doing it will be to protect my company and assets," says publisher Beard.

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Family Business

Gift-giving with a purpose; fitting traditions to the times; adding a place at the table.

OBSERVATIONS

Giving Away Money Effectively

By Sharon Nelton

A lot of us fantasize about what it would be like to be Bill Gates, with all those billions of dollars at our disposal. What wonderful things we would do for the world!

We may wonder why Gates isn't giving away more money faster. We forget that it can take as much thought and planning to give money away effectively as it does to earn it. And by "effectively," I mean making a difference on social, cultural, or other issues that really matter to you.

When you're a family-business owner dealing with philanthropy, the process may be even harder. You have to be concerned with more than just one person's values and philanthropic desires; you have to be mindful of many individuals' competing views and desires and favorite charities.

Business families that embark on philanthropy will find that the process raises a number of interesting—and sometimes difficult—questions that need to be resolved. For example, will your giving be done as a business or as a family? What structure will be created for handling do-

nations? How public does the family or the business wish to be about its philanthropy? Should philanthropy be used as a tool for public relations for the business?

And, of course, where will the money go?

Some business families—not many, but some—create written policies that govern their philanthropic activities. Some, if they are wealthy enough, establish separate foundations to handle family giving.

An excellent tool for initiating a family discussion on such issues is a paper from The Philanthropic Initiative, Inc. (TPI), in Boston, titled "Philanthropy for the Wise Investor: A Primer for Families on Strategic Giving." Founded and headed by H. Peter Karoff, a published poet and former real-estate and insurance executive, TPI is a not-for-profit consulting firm that offers philanthropic design and management services.

The paper offers five important lessons "for those beginning the philanthropic journey," based on the experience of TPI staffers and the advice of a dozen veteran donors:

■ "No philanthropic effort can be all things to all people."

■ "Giving [money] away wisely is hard but extremely satisfying work."

■ "Philanthropy must be treated as any other important financial investment."

■ "Small amounts of giving, well-placed, can matter. Don't assume that effective philanthropy requires great wealth or enormous funding initiatives."

■ "The best family philanthropy reflects what's best about that family."

The paper discusses strategic thinking on philanthropy, outlines keys to effective giving, raises questions for families about giving, and suggests ways to begin. For a free copy of the paper, contact The Philanthropic Initiative, Inc., 77 Franklin St., Boston, Mass. 02110; (617) 338-2590.

Effective philanthropy doesn't just enhance society. The donors who advised TPI on the paper say the considerable benefits to the family include a deepened connection among members, a family forum for collaboration and problem solving, and creation of common ground among generations.

What family doesn't yearn for such rewards?



PHOTO: T. MICHAEL KEZA

PLANNING

Reinterpreting Traditions In Changing Times

By Craig E. Aronoff and John L. Ward

O ne of the challenges a successor to leadership faces is how to preserve the strengths of tradition while adapting traditions so they have more relevance for today.

Meeting that challenge can be difficult and subtle. Sometimes, continuing a tradition is contrary to the requirements for business success. But often, the successor wants to maintain the tradition out of respect for predecessors and because he or she has an appreciation for the power of culture.

The task is to hold on to the spirit of a tradition yet reinterpret its meaning for contemporary use.

Following are three situations where that

was accomplished. (The owners asked not to be identified to protect their privacy.)

"Do Whatever It Takes"

The founder of one company built a very successful construction business. He grew the company by going after all available work. Some of his competitors were complacent, and he gained the business that they didn't pursue. He earned a great reputation with the motto he used in getting new customers: "Do whatever it takes."

Today, the entrepreneur's daughter runs the company. She and the company's senior executives have determined that to continue to be successful, the business



Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise at Kennesaw State University in Kennesaw, Ga. John L. Ward is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Copyright © by the Family Business Consulting Group, Inc.

must focus on a specialized market segment by building extraordinary skills to serve specific customers.

The company's managers needed lots of discipline and time to overcome the organization's temptation to bid on any work that came along. They realized that if they chose not to specialize, it not only would be inefficient in these more competitive times but also would put the company at risk of accepting jobs for which it lacked expertise. Sticking to the company's area of competence created plenty of opportunities as its reputation spread to a national market.

The founder became frustrated that the company didn't choose to bid on jobs from some of his old customers. Many longtime employees struggled with the memory of "Do whatever it takes."

Through meeting and talking with employees, the daughter rekindled the spirit of "Do whatever it takes." She emphasized that the firm should continue to consistently abide by that motto to satisfy each customer it did seek and to improve the company's methods. She wanted each customer to be served very well. She emphasized doing the jobs more quickly and more safely by "Doing whatever it takes."

"We Always Take Care Of Our People"

In a second company, a retail business, the tradition was to earn loyalty by exemplifying the notion that "we always take care of our people." Over the past two decades, the company had developed a paternalistic culture that provided job security and extraordinary benefits and even included lending money to employees in need.

With a shift in business trends and demands, the third-generation sons, who served as co-presidents of the company, wanted to change the attitudes and culture of the work force. They wanted to put more emphasis on training and less on providing security. The conflict with the past was troubling.

At a board meeting, the sons and other board members were struggling to resolve the issue. One director, a business executive from outside the family firm, asked, "Whose responsibility is it to create a career path?" After some discussion, the board agreed that it was the company's responsibility to offer great training and

learning opportunities but that it was each employee's responsibility to shape those opportunities into a secure career path.

The co-presidents then made it their goal to provide the best employee training in the industry. They promoted the training as the way the company took care of its people. Training, they argued over and over, was the best gift of security a company could offer in these times.

"Owe No One Anything"

Three generations ago, a business was launched in a tough industry noted for its sleaziness in making payments to suppliers and getting payments from customers. Credit, credibility, and trust were absent.

The founders of the new business believed that it could prosper by doing things differently and in ways consistent with the owners' personal ethics. They pledged to pay all their suppliers and subcontractors in full every Friday. Their motto was "Go home every weekend owing no one anything."

They hoped that their policy would build at least a few successful relationships and that word would spread to potential customers who wanted to do business this way. They consistently rejected all forms of debt.

Now, 75 years later, this thriving family firm enjoys a well-earned outstanding reputation. But business practices and strategic needs have changed over the years. While the company no longer clears its books every Friday, it maintains its strong reputation by paying all bills fully within terms. And it now has long-term debt, which it used to finance an acquisition.

We urge business-owning families to identify the spirit of their culture, such as being good to their employees or always striving to do the best the company can. Then explore how that message has relevance yet creates problems today.

Emphasize the former. Save the spirit of the message and reinterpret it to be consistent with the demands of today's world. This can be a creative and fulfilling challenge for a new company president—especially in a family business.



ILLUSTRATION: TROY THOMAS

MARK YOUR CALENDAR



July 23-25, San Antonio

"Family Business and Entrepreneurship: Building Bridges Through the Life Cycle" is the theme of the fifth annual conference of the International Family Business Program Association. The IFBPA is an organization of family-business program directors and researchers. For additional information, call Doris Sandberg at Baylor University; (254) 710-4154.

Aug. 6-9, Snowmass Village, Colo.

"The Aspen Family Business Gathering" is an interactive, informal conference for families in business. Program leaders include five nationally known family-business professionals: David Bork, Leslie Dashew, Dennis Jaffe, Sam H. Lane, and Joe Paul. Call the Aspen Family Business Group; 1-800-835-5883.

Sept. 24-26, Paris

"Developing the Family Enterprise in a Changing Environment" is the theme of the ninth annual conference of the Family Business Network, an international organization of family businesses. Emphasis will be placed on three stages of family enterprise: owner-managed businesses, sibling partnerships, and cousin "confederations." For further information, write the Family Business Network at P.O. Box 915, CH-1001 Lausanne, Switzerland; phone 41-21-618-0286; fax 41-21-618-0707; or e-mail schwass@imd.ch.

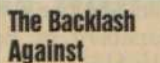
Oct. 7-10, Portland, Ore.

"Continuity and Change: Expanding the Possibilities" is the annual conference of the Family Firm Institute, an organization of professionals who serve family businesses. The conference will use an "open space" format, in which participants determine the agenda. Harrison Owen, a recognized leader in "open space" meetings, will be the facilitator for the conference. For additional information, contact the institute at (617) 789-4200.

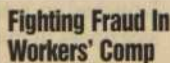
How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

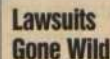
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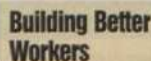
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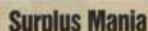
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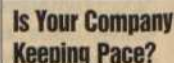
Your small business can be devastated if a trial lawyer and a disgruntled employee file a lawsuit. But you can take steps to protect yourself.



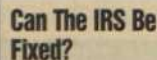
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Nation's Business
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Case Study: The Unexpected Job Seeker

On his 74th birthday, Seymour was approached by his son's oldest child, Harris. "Grandpa," said the 18-year-old, "now that I'm majoring in history, books are my life! What do you think about my coming into the family book business after college or maybe even after I go to graduate school or get some experience working in the field?"

Seymour was stunned. He had no answer for the young man except, "Hmm, that's an interesting idea." He had never given it a thought.

After all, Frank, Seymour's son, had be-

come a dentist. So, as the result of a combination of sale and gifting by Seymour well over a decade ago, 90 percent of the ownership of his small chain of bookstores is now in the hands of his daughter, Emily, the only heir working in the business.

Seymour gifted other assets to Frank in equal proportion and retained the remaining 10 percent of the company's stock. On

Seymour's death, Emily, the mother of an infant, will inherit the remainder of his stock.

Seymour has always believed that business ownership should be in the hands of the family members who work in the company. Now retired, he hardly thinks of the stores as a "family business" anymore. He and Emily see the business as hers. It simply never occurred to him that nearly 15 years later, one of Frank's children would think of a career in the business. "What should I do now?" Seymour wonders.

Response 1

It's Emily's Call

How does a family business keep the door open for future generations whose aptitudes and desires are not yet known?

Harris has asked his grandfather, Seymour, for permission to enter the family business. But Emily, Seymour's daughter, now owns the business, legally and emotionally. As father and former owner, Seymour still has influence with Emily, but it is Emily who must make the decision on whether the door is still open for Harris.

If Emily is willing to do something for her nephew, she should set criteria for a family member to enter the business. First,

Harris needs to complete his education and work outside the business, as he is willing to do. Next and most difficult: There must be an open position in the family firm for which Harris qualifies.

If Harris fulfills the criteria, Seymour can suggest that Harris be given an option to purchase Seymour's 10 percent at fair market value. But the option should not be exercisable until after at least three years of employment.

Seymour could even assist Harris by leaving assets to him in trust to buy the stock. If Harris didn't purchase the shares, the funds would go elsewhere. If Harris did purchase the shares, Emily or the corporation should have the right to repurchase them at the price Harris paid, plus any increase or less any decrease in book

value. This would give Emily control of all shares if Harris decided to leave the business. If Seymour dies before Harris has executed the option, the shares should pass to Emily subject to the option.

Emily needs time to contemplate the ramifications of this proposal. If she declines, her decision must be respected. Seymour then could seek other ways to support Harris, making it clear that he can't give Harris something he no longer owns.



ILLUSTRATION: TROY THOMAS

Response 2

Not A Birthright

The best advice Seymour could offer Harris is to talk directly with Emily. Otherwise, this may become a classic case of "triangulation," where communication between two people is transmitted through a third family member as an intermediary.

Family members need to separate issues of employment in the business from ownership of the enterprise. Would Harris be equally enthusiastic about a career in the same industry if there were no guarantee of an ownership stake in the business?

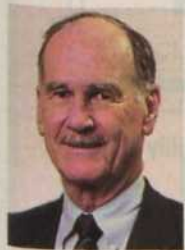
Emily has every right to maintain full ownership interest, although she might be genuinely inclined to

hire Harris and possibly offer him the opportunity for stock ownership in the future. This would likely be a minority interest unless Harris proved worthy of making a significant contribution to the business and unless a mutually agreeable partnership could be forged between Emily and her nephew. Harris should not approach his grandfather and aunt with the expectation that he has a birthright to employment and ownership in the family business.

With a little luck, Emily will be receptive to the prospect of a family member joining the firm. If she is not, Harris should be encouraged to seek an independent career in the industry.

Seymour may find great joy in mentoring his grandson in pursuit of business opportunities that don't compete with Emily's operations.

If all goes well, Harris might obtain capital from Seymour and Harris' father, Frank. Frank's gifts of cash, or business loans, would be no different from gifts or sales of stock if he owned an interest in the business. Any opportunities, however, should be approached without any assumption of an entitlement to such on Harris' part.



John F. Hopkins, a San Jose, Calif., attorney who specializes in family-owned businesses.



William Bellet, a psychologist specializing in family businesses with Sieveking, Bellet & Associates in Nashville, Tenn.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Boston. You can comment on this case study on the World Wide Web at www.ffi.org/forums.html.

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May Poll Results **Readers' Views**

No To Minimum-Pay Hike

Two-thirds of the respondents to a *Nation's Business* poll opposed any increase in the federal minimum wage.

Readers who responded to the Where I Stand poll in the May issue said a rise in the minimum wage could lead to elimination of jobs, a cutback in products and services, or a reduction in profits or employee benefits.

The Clinton administration and many congressional Democrats want to boost the minimum wage, now \$5.15 an hour (the rate

set in September 1997), to \$5.65 an hour on Jan. 1, 1999, and to \$6.15 an hour on Jan. 1, 2000. Business groups, including the U.S. Chamber of Commerce, oppose the increase. The proposal is pending in Congress.

In the Where I Stand poll, more than three-fourths of the respondents said there should be a "training wage" or a lower minimum wage for low-skilled and entry-level workers.

Here are the complete results of the poll:

Questions And Answers

Do you think the current federal minimum wage, \$5.15 an hour, should be increased?

Yes; two 50-cent increases in two years would be reasonable	13%
Yes; but two 50-cent increases in two years would be too much	17
Yes; the wage should be raised more than the administration proposes	3
No	67

What impact would a higher federal minimum wage have on your business? (Check all that apply.)

Jobs would be eliminated	28%
Employee benefits would be reduced	26
Profits would decline	39
Products or services would be eliminated	11
Prices would rise	41
No impact; state minimum wage is already higher	4
No probable impact	33

Would an increase in the federal minimum wage diminish your ability to hire people off welfare rolls?

Yes	45%	No	55%
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How many of your employees are paid the federal minimum wage?

All	12%
More than half	6
Less than half	21
None	61

Would an increase in the minimum wage also push up wages for workers at higher pay rates?

Yes	69%	No	31%
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Should there be a separate "training wage" or a lower minimum wage for low-skilled and entry-level workers?

Yes	78%	No	22%
-----	-----	----	-----

Do you think a minimum-wage increase would make it harder for U.S. firms to compete with foreign companies that have access to cheap labor?

Yes	86%	No	14%
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Where I Stand



On Health Insurance

Health insurance for workers is one of the biggest expenses for a small business that provides this employee benefit. Legislation pending in Congress could add more costly mandates for medical coverage and could open employers to medical-liability concerns. (See the Cover Story, Page 16.) These questions seek your views on health-insurance requirements.

Results of this poll will be published in the September issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1

Is your company facing higher health-care premiums this year?

1. Yes
2. No
3. Don't know

4

How large would an increase in health-insurance costs have to be to force you to drop coverage?

1. Less than 10 percent
2. 10 to 20 percent
3. 21 to 30 percent
4. More than 30 percent

2

Do you believe that government benefit mandates add significantly to the costs of your company's health insurance?

1. Yes
2. No
3. Don't know

5

Would your workers have to bear part of the additional cost of premiums if health-insurance expenses increased?

1. Yes
2. No
3. Don't know

3

Would higher health-insurance premiums affect your company's willingness to provide medical benefits?

1. Yes
2. No

6

Would higher costs cause some of your workers to drop medical coverage?

1. Probably
2. Probably not
3. Don't know

7

Would you continue to offer health benefits if federal legislation were passed making employers liable for medical-malpractice lawsuits?

1. Yes
2. No
3. Don't know

Send Your Response Today!

MANAGING

Fostering Truth In Advertising

By Frances Cerro Whittelsey

During the rise of the consumer movement in the early 1970s, the threat of strict government regulation of advertising seemed real and imminent. "We recognized that if we didn't do something, we would have government regulation of the worst kind: censorship," recalls Walter J. O'Brien, former president and chief operating officer of J. Walter Thompson USA, one of the nation's leading advertising agencies.

The result of those fears—and of highly publicized federal hearings into advertising practices—was the birth of a system of self-regulation. Trade groups representing the advertising industry and the nation's largest advertisers formed an alliance with the national Council of Better Business Bureaus (CBBB) and set up a system to monitor ads and seek voluntary compliance with laws against false and misleading advertising.

Today, nearly 30 years later, O'Brien serves as president of the National Advertising Review Council, the oversight body that establishes policies and procedures for the self-regulatory system that is carried out by the CBBB's National Advertising Division (NAD) and some local Better Business Bureaus across the country. The system has become an important, although not widely known, weapon for small businesses to use against competing companies that try to attract customers with deceptive ads.

"Good For The Consumer"

O'Brien believes that the review system has advantages over government regulation. "One of the differences with government regulation, where there is always a wrongdoer, is that we don't have any wrongdoers," he explains. "Our perspective is: What can we do to make the advertising truthful and accurate? That's good for the consumer and the advertiser because if the consumer has confidence, it works for advertisers."

The need for policing advertising, particularly at the local level, is acute, according to some business people and consumer advocates.

"I think the situation is out of control," says Russell Trenholme, president of Vision World, a chain of optical retail shops based in Minneapolis. "In the past 10 to 20 years there's been an enormous increase in the volume of advertising, and there are more extrava-

A system of self-regulation helps small businesses curb competitors' use of false or misleading ads.

the BBB movement had its origins nearly a century ago. "We ask them to prove their claims as a matter of ethics."

Complaint About A Slogan

No business, large or small, is exempt from this challenge, Graham points out. As an example, he cites the case of retailing giant Wal-Mart.

Trenholme's company was a complainant against Wal-Mart. At the heart of the matter was Wal-Mart's slogan: "Always the low price. Always." Trenholme and other competitors contended that this was a colloquial way of saying "always the lowest prices" and that Wal-Mart did not always have the lowest prices. "In the case of optical products," says Trenholme, "we and many others had lower prices—in some cases, at least."

Wal-Mart insisted that the slogan was only a way of conveying "generalized notions of excellent service, quality, and prices" and that it was not a claim of lowest prices.

The dispute went to the NAD. Although the NAD agreed with Wal-Mart on the meaning of the slogan, Wal-Mart said it would stop using it. Nonetheless, Trenholme appealed the NAD ruling to the National Advertising Review Board, an appellate body made up of advertising professionals from diverse segments of the industry. It is set up to handle such appeals; its governing body is the advertising review council.

After a hearing in 1994, the review board overruled the NAD, agreeing with the complainants that the slogan made it sound as though Wal-Mart always had the lowest prices. The review board noted that it is virtually impossible for a retailer to prove such a claim.

Wal-Mart replaced the slogan with one that stated, "Always low prices. Always," with "the" removed.

"I don't know if it was a major victory," says Trenholme, "but it was satisfying to see the process can work and cause changes, even minor ones, that are of some benefit."



gant claims and more deceptive claims than ever. And while the [BBB self-regulatory system] is the best thing we've got, it's only one small effort."

The crux of the process used by the BBBs is simple. "We hold that honorable business people should be willing to substantiate their claims when asked by the Better Business Bureau," explains Ronald Graham, head of the BBB in Minneapolis, where, he says,

Working For Large Companies

Sometimes a challenge is made by a larger competitor against a small business looking to crack into an industry.

One small firm challenged by a major manufacturer is Ultrafem, Inc., founded by inventor Audrey Contente. In 1996, Ultrafem, based in New York City, began marketing Contente's invention, a new form of menstrual protection called Instead, a disposable cup. Ads for Instead claimed that it was more comfortable and effective than other feminine-hygiene products. Ultrafem's sales for the fiscal year that ended in June 1997 totaled \$3.5 million.

Tambrands, Inc., a feminine-hygiene-products manufacturer with \$662 million in sales for 1996, challenged Ultrafem's ads.

"I figured that eventually someone who saw us encroaching on their market would do something," says Contente, an athlete whose participation in triathlons motivated her to invent Instead.

The NAD issued an 11-page decision that each side could claim as a partial victory. The NAD said that some of Ultrafem's claims were truthful, but it asked the company to modify or add disclosures to other claims.

"A Hammer At The End"

Any small business can ask its local BBB to investigate an ad, but not all local bureaus follow the investigative and reporting procedures established by the advertising review council.

What makes the review council's process "credible and effective," says Jodi Bernstein, director of the Federal Trade Commission's Bureau of Consumer Protection, is that the disposition of every BBB case, including the name of the advertiser, is made public, and "there is a hammer at the end." The hammer is that if it is determined that an advertiser is using false or misleading ads and refuses to change the ads, the case will be referred to the FTC—the federal agency with primary responsibility for regulating advertising—or to a local consumer-protection agency.

BBBs that commit to the ad-review process also try to police advertising before it leads to complaints. Bernstein, in fact, credits the bureaus with

"doing a lot of the advertising review that [the FTC] could not possibly get to."

The Better Business Bureau of Central & Eastern Kentucky, for example, monitors "thousands and thousands of ads every year," says Tracey McLarney, president of the bureau. Many of these cases involve pricing and discount claims or going-out-of-business and other kinds of sales.

Such pricing claims represent the most common errors found in local advertising, and they are particularly rampant in the automotive, jewelry, home-furnishings, and electronics businesses, according to McLarney and the Minneapolis BBB's Graham.

"Most national cases involve product-performance claims because most national advertisers are manufacturers," notes Graham. "But in the local setting,

small businesses are mostly concerned about price claims, because price and discount are what drive consumer response."

Only a small percentage of the advertising cases handled by BBBs result from complaints by consumers or consumer groups. The review council's O'Brien attributes this to a lack of awareness among consumers.

Bruce Silverglade, director of legal affairs for the Center for Science in the Public Interest, an organization in Washington, D.C., says that consumer groups gradually stopped using the BBB program and turned to state attorneys general, who can "wrestle legally binding agreements from advertisers and monetary settlements sometimes worth millions of dollars."

O'Brien says that businesses, however, are continuing to use the self-regulatory system. "Over the years, advertisers have learned that this is a good forum for them to keep their competitors on the straight and narrow," he says. "We've proved that we are fair."

Frances Cerra Whittelsey is a free-lance writer in Huntington Bay, N.Y.

"In the local setting, small businesses are mostly concerned about price claims, because price and discount are what drive consumer response."

—Ronald Graham,
Better Business Bureau,
Minneapolis

Guidelines For Advertising

Whether you're writing your own advertising or scrutinizing a competitor's, you should keep in mind some basic principles of truthful retail advertising, as established by government law or regulation or by case law. The following guidelines were drawn from the *Advertising Review Checklist*, published by the Lexington (Ky.) Advertising Club and the Better Business Bureau of Central & Eastern Kentucky, Inc.

Sales. A sale is intended to be temporary. Ads should state the dates when the sale is in effect. Ordinarily, a sale should not last more than 30 days. Many jurisdictions require that going-out-of-business sales be registered with a consumer-protection agency, which may issue a permit.

Savings Claims. All "percent off" claims for specific items must make a comparison with the former price—at which a significant amount of the product in question must have been sold—or with a competitor's price for identical or comparable merchandise.

Lowest Price. No one can legitimately

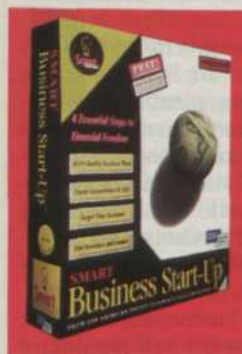
claim to have the lowest prices on all items they sell all the time. A "lowest-price guarantee" must display prominently a policy on matching or bettering competitors' prices.

Disclosures. Offers of free merchandise, free services, or credit as well as warranty and guarantee statements must disclose the terms or conditions of those offers or statements.

Superiority Claims. Advertisers must be able to substantiate specific claims that merchandise or services are better than the competition's. General statements about how wonderful a product or service is are considered "puffing" or "advertising poetry" and ordinarily are not challenged.

If you believe a competitor is engaging in false or deceptive advertising, contact your local Better Business Bureau. Even if the bureau does not have a full-scale advertising-review program, it will investigate. Some bureaus also will review your advertising for compliance with the law before you use it.

Generate Business Success Through Advanced *Planning and Management*

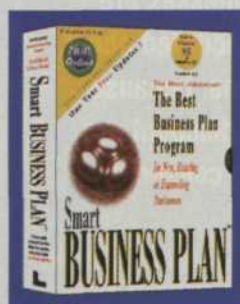


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Successful business is the end result of a great idea followed through with painstaking research, careful thought, detailed planning and successful implementation. Smart Business Start-Up simplifies this process by guiding you through the four most important steps of business start-up: researching markets, writing a business plan, incorporating a business, and locating capital. It provides tools for you to present your findings to business associates and investors plus tips on how to locate funding.



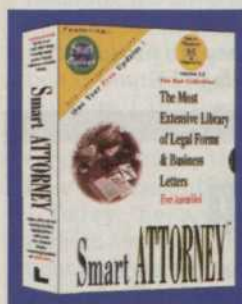
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The BEST business plan program.

Smart Business Plan

The foundation of every successful business is a rock-solid business plan—and we've made it fast, easy, and fool-proof. Just follow the simple steps to build a plan that will impress even the most critical banker or investor. Complete with professional-looking charts and graphs based on standards recognized throughout the industry.

This software includes its own word processor, spreadsheet, graph generator, and sample plans.



Computer disk
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Extensive library of legal forms and business letters.

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Improve your bottom line by reducing costly legal fees. With Smart Attorney, you can perform your own basic legal tasks. With more than 3,500 forms and letters, Smart Attorney contains the most extensive collection of legal documents ever assembled. This software is specifically designed to cut overhead by performing basic legal tasks—you can start saving money today!



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Work smarter, not harder!

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Smart Forms 97 is the most complete library of professionally prepared business forms ever assembled. With more than 2,500 powerful forms for almost every business need, Smart Forms 97 is the quickest and easiest way to minimize liability and reduce legal costs. Ideal for small businesses wishing to project a corporate image. Plus,

registered users can update their software for one year FREE via the Smart Online Web site.



Computer disk
(3-1/2 Windows, MAC)
\$39.00
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Over 100 essential tools you need to grow your business.

BusinessBasics

Provides over 100 of the most essential business documents, agreements, spreadsheets, checklists, forms, and templates to run any business. Includes tips, "how-tos," and guidance from expert sources, including legal, accounting, and marketing professionals. BusinessBasics will help you accomplish important day-to-day projects and tasks and is priced to be affordable for any business.

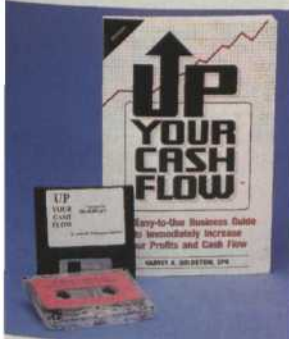


Computer disk (DOS 5-1/4, 3-1/2, Windows 3-1/2, MAC) and 400-page reference guide.
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Publish your own manual and protect your company.

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Stop problems before they occur by creating a company-specific manual that details your policies, procedures, and benefits. With over 140 ready-to-customize documents to choose from, you'll not only satisfy legal requirements when you give each employee a manual, you'll have better informed (and happier) employees and managers...and that means a smooth-running business. This is a must for anyone with five or more employees.



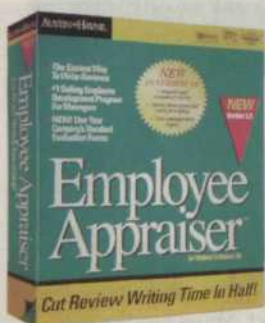
Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2) and reference book.
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Increase your profits and cash flow.

UP YOUR CASH FLOW

Entrepreneur version

How much cash will you need next week, next month, or next year? If you've never had the time or the tools to project cash flow, here's the product for you. Just answer the questions on your screen about sales and expenses and out pops a complete financial plan in spreadsheet format...without wasting time to set it up! You can spot trends, run "what if" scenarios, and always know your cash needs in advance.



Computer disk (WINDOWS 3-1/2) with over 400 writing samples.
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Better employee evaluations... delivered in half the time.

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Avoid common performance appraisal mistakes that can get you into legal difficulty...and ruffle employee feathers. Developed by labor law experts, this computer based program checks your documents for inappropriate language and not only offers advice on how to correct it, but gives you access to hundreds of professionally written phrases and paragraphs that can be personalized for your needs. You and your supervisors will cut review writing time in half!



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Plan big and small projects in 30 minutes!

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The fastest, easiest way to plan almost any project. Whether you're launching a new product, starting a business, organizing an event, designing a Web site, or producing a company newsletter, Project KickStart will help you devise a strategy to get the results you want. This easy-to-use program helps even the novice user develop a clear overview of the project and the steps needed to complete it successfully.

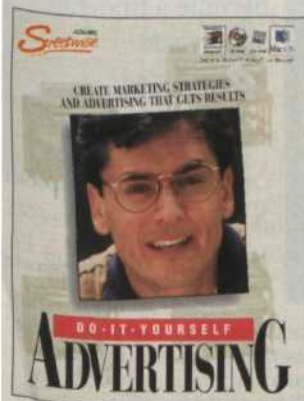


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Lead your staff to peak performance.

Managing People

Master the art of managing people and develop leadership skills. Learn how to increase motivation, resolve conflicts, coach effectively and manage difficult people. Includes two hours of video and commentary with lots of interactive exercises. This program provides all the tools you need to manage people skillfully.



CD-ROM
\$39.95
 plus \$4.50 s/h

Create marketing strategies and advertising that gets results.

DO-IT-YOURSELF ADVERTISING

Be your own ad agency! This program makes it easy for you to create your own advertising. With Do-It-Yourself Advertising, you'll walk through step by step exercises to develop marketing plans, create effective strategies, and produce ads that will get results.

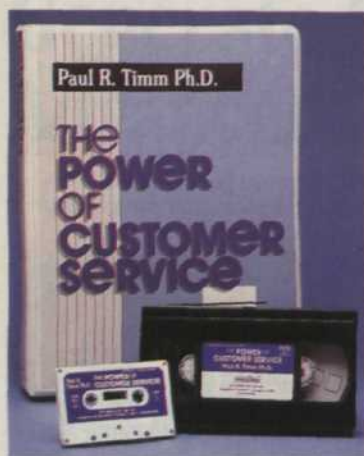


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Includes 600 ready-to-select interview questions.

HIRING TOP PERFORMERS

Effective hiring requires more than relying on a "gut feeling." To consistently hire top people, you need to use effective, proven techniques. Learn the techniques you can use to ensure that you hire the right people without wasting any time. This program covers the classified ads to the interviews, the fact-checking to the salary negotiations and can improve your skills in any area of the overall hiring process.



Video, VHS only. Running time 45 minutes. Includes companion audiocassette and workbook.

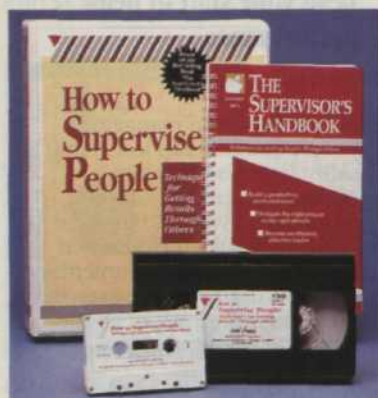
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Help your employees understand the secret to getting repeat business.

THE POWER OF CUSTOMER SERVICE

Customers often buy because of the quality of the service, rather than the quality of the product. Show employees how to deliver the service that creates satisfied customers and turns around disgruntled customers. Help

them deal with customers courteously even when they're under pressure. Demonstrate how to communicate concern and competence. Put your company on the inside track to consumer confidence.



Video, VHS only. Running time 42 minutes. Includes companion audiocassette and Supervisor's Handbook.

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Proven techniques for getting results through others.

HOW TO SUPERVISE PEOPLE

Leadership is the ultimate challenge for any supervisor...and often the key to an effective organization. Leadership requires skill, toughness, and sensitivity...and this

acclaimed video shows you how to attain all three. You'll see how to use team building, delegation, and conflict resolution to become an outstanding supervisor.



Video running time 35 minutes. Includes companion audiocassette and workbook.

\$99.95
plus \$6 s/h

Companies with great customer service survive and thrive.

THE BASICS OF PROFITABLE CUSTOMER SERVICE

Learn how to develop a caring attitude toward customers that brings them back to buy your product or service again and again. This is must viewing for everyone in your organization because business success—short- and long-term—will be customer service-driven. Don't miss these valuable tips and techniques that help you achieve greater profits. The video is divided into segments and designed to be used individually or with groups.

A powerful customer retention tool!

50 WAYS TO KEEP YOUR CUSTOMERS

Fifty super techniques that keep your customers—and employees—happy. You can turn every customer into a lifelong client with this best-selling video workshop. Must viewing for owners, managers, salespeople, telemarketers, office staff—everyone who deals with customers in person or by phone. Segmented into easy viewing sections.



Video, VHS only. Running time 45 minutes. Includes companion audiocassette and workbook.

\$99.95
plus \$6 s/h



Video running time 48 minutes. Includes companion audiocassette and workbook.

\$99.95
plus \$6 s/h

Create a cooperative, highly productive team environment.

Effective Teamwork

Teamwork is what makes businesses successful. Ideas and decisions are generated within teams and not from the top down as in the past. The Effective Teamwork video training program will show you:

- What teams are all about and why they are important to your organization
 - How to write a team constitution
 - How to develop ideas and make decisions
 - How to run a team meeting
- Your entire work force will know how to maintain a cooperative, creative and highly productive team environment.



Video running time 48 minutes. Includes companion audiocassette and workbook.

\$99.95
plus \$6 s/h

Become a first-rate supervisor.

THE NEW SUPERVISOR: SKILLS FOR SUCCESS

Here's everything you need to improve your leadership ability...make timely, effective decisions...manage change and time productively...communicate effectively so you can praise, criticize, and deal with conflict...build an effective work team...train people who work for and with you...and enjoy your job! This is a career-building program.

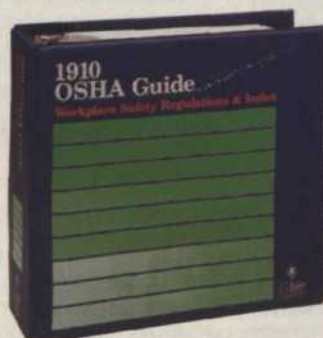
CALL TOLL-FREE **1-800-222-3393**
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PC Magazine says: "No business plan software can match Business Plan Pro." This amazing software provides the formulas, text, charts, and graphs for you to create a great plan. It's totally interactive. Just cut and paste from sample text or create your own. It includes ten plans that got financing using this exact software. If you're a start-up, established business, or launching a new product, this is it!



Workplace safety regulations and index

1910 OSHA GUIDE

This comprehensive reference guide contains the full text of 29 CFR Part 1910, Subparts A through Z, plus Part 1903 Inspections and Part 1904 Recordkeeping. It's printed in 20 percent larger type than the CFR, and it's tab-divided and indexed for quick reference. This guide works hand-in-hand with the OSHA Compliance Manual.

1,039 pages,
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3-ring binder
\$189.00
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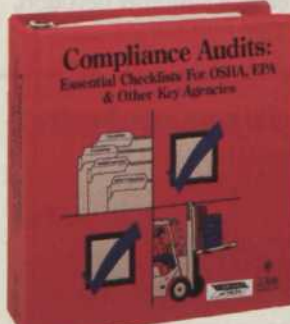
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CD and 3.5" disks.
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Create a complete marketing plan in six easy steps!

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Built-in text, spreadsheets, charts, graphs, and examples help you develop, manage and track your plan. Use spreadsheets to budget expenses and forecast sales. Then track your expenses, compare forecasts against actuals, and measure your efforts. Includes software, user guide, marketing manual, and a sample plan.



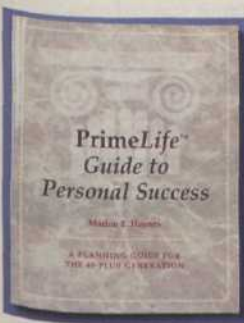
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Saves time and money by providing a "snapshot" of facility compliance through an easy-to-use audit program! It provides guidance on how to do a walk-around audit of your facility; takes you through the recordkeeping requirements; and provides information on OSHA and EPA, including how they do inspections and schedule penalties.

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If you're over 40 years old, here's the reference source you've been waiting for!

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This powerful tool is your personal guide for evaluating the seven key areas of your life: health, finances, career, relationships, learning, recreation, and spirituality. Give this special resource material just a few minutes a day, and you'll be able to develop the objectives, priorities, and plans that will impact and improve your life!



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SAFETYPLAN BUILDER

Here's everything you need to create a complete safety and health management plan. Select your industry, state, and work practices and SafetyPlan Builder will custom assemble your safety plan manual for you in minutes.

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Quick service doesn't have to mean poor service.

HOW TO GIVE EXCEPTIONAL CUSTOMER SERVICE

See for yourself how easy it is to serve customers quickly but still leave them feeling pampered. Watch how easy it is to enforce company policy without turning off customers. This video series

will help you make every customer contact more pleasurable and profitable; you'll build a base of customer devotion, loyalty, and repeat business.

Four videos. VHS only. Running time 212 minutes. Includes 40-page workbook.

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Build customer loyalty.

DEVELOPING A CUSTOMER RETENTION PROGRAM

To keep customers coming back for life, you need to create customer loyalty... which doesn't come from merely satisfying them. It

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Video running time 3 hours 53 minutes. Includes four videos and companion workbook.

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Get off on the right foot!

HOW TO WRITE A WINNING PROPOSAL

Whether you've written proposals or not, each one presents a new, difficult challenge. With this program, you'll learn how to take any idea, shape it on paper, and give it the visual impact that gets

attention. You'll learn how to organize your material in a logical, reader-friendly way. And you'll learn how to avoid the turn-offs that can doom your proposal from the start. This video will help you deliver powerful, well-written proposals!

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See things from the customer's point of view and increase sales.

HOW BUYERS LIKE TO BE SOLD

A remarkable video course that helps you get inside your customers' heads! Learn exactly what they're thinking and how you can create sales techniques and strategies they won't be able to resist. Discover what gets a buyer's attention, what turns him off, what makes her say YES! These powerful tapes will boost your sales.

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If you need to learn about accounting, finance, and budgeting...here are the answers!

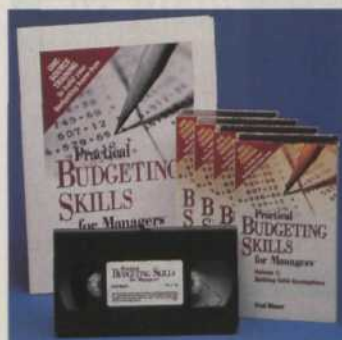
FINANCE FOR NONFINANCIAL PROFESSIONALS



Make more confident and well-informed decisions in money matters. Deliver analyses and reports that demonstrate your control of your business. This exceptional video series helps you learn every basic nuance of finance, including accrual vs. cash reporting; direct and fixed costs; tests for liquidity, leverage, and solvency; revenue projections, and more.

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of the cash-flow process. Build flexibility into your budget so you can react quickly to changing financial forces. A well-prepared budget is a vital management tool.



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No matter what your business is or whom you're trying to convince, you'll find the perfect letter for

virtually every selling situation. Call up customizable letters that cover every aspect of selling: creating repeat business, opening doors, dealing with customers, responding to objections, collecting money.

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400 professionally written letters for all areas of your business.

BUSINESS LETTERWORKS*

If you've ever had to apologize for an

employee's rudeness, make an inquiry to a venture capital firm, collect an unpaid debt, or any number of everyday situations, then this software will simplify your life. Call up letters covering advertising, suppliers, internal communications...every possible business situation.

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400 customizable letters for your business and personal life.

PERSONAL LETTERWORKS

Be prepared for every imaginable situation,

ranging from touchy, feelings-oriented issues to hard-nosed "this-is-the-way-it's-going-to-be" challenges. Never struggle again with a sympathy note to a colleague or friend, or a hard-to-resolve dispute with an uncaring banker or vendor, or how to say "Thank you," or "I appreciate you."

Computer disk (DOS 5-1/4, 3-1/2, Windows 3-1/2, MAC) and 470-page book (400 letters)

\$79.95
plus \$6 s/h

*Formerly LetterWorks

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Company _____

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City _____

State _____

Zip _____

Telephone # _____

(Required for Credit Card and Fax Orders)

Method of Payment

☐ Check or money order enclosed payable to Nation's Business

☐ Bill my credit card: ☐ VISA ☐ MasterCard ☐ AE

Card # _____ Exp. Date _____

Signature _____

QTY	NAME OF PRODUCT	UNIT PRICE	S/H COST	TOTAL PRICE
BUSINESS PLANNING & MANAGEMENT				
	Smart Business Start-Up	\$99.00	\$6.00	
	Smart Business Plan	\$99.00	\$6.00	
	Smart Attorney	\$69.00	\$6.00	
	Smart Business Forms	\$39.00	\$6.00	
	Business Basics <input type="checkbox"/> Windows, 3-1/2 <input type="checkbox"/> MAC	\$39.00	\$6.00	
	EmployeeManualMaker DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows, 3-1/2 <input type="checkbox"/> MAC	\$89.00	\$6.00	
	Business Plan Pro	\$99.95	\$7.50	
	Marketing Plus	\$99.95	\$7.50	
	PrimeLife Guide to Personal Success	\$12.95	\$3.50	
BUSINESS SAFETY & COMPLIANCE				
	1910 OSHA Guide	\$189.00	\$8.00	
	Compliance Audits	\$139.00	\$8.00	
	SafetyPlan Builder DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$89.00	\$6.00	
CUSTOMER SERVICE & MANAGEMENT SKILLS				
	The Power of Customer Service	\$99.95	\$6.00	
	50 Ways to Keep Your Customers	\$99.95	\$6.00	
	How to Supervise People	\$99.95	\$6.00	
	Effective Teamwork	\$99.95	\$6.00	
	The Basics of Profitable Customer Service	\$99.95	\$6.00	
	The New Supervisor: Skills for Success	\$99.95	\$6.00	
FINANCE, MANAGEMENT, & ADVERTISING				
	Up Your Cash Flow (Entrepreneur version) DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2	\$139.00	\$6.00	
	Project KickStart (Windows)	\$99.95	\$7.00	
	Do-It-Yourself Advertising (CD-ROM)	\$39.95	\$4.50	
	Employee Appraiser	\$99.95	\$6.00	
	Managing People (CD-ROM)	\$39.95	\$4.50	
	Hiring Top Performers (CD-ROM)	\$39.95	\$4.50	

QTY	NAME OF PRODUCT	UNIT PRICE	S/H COST	TOTAL PRICE
CUSTOMER SERVICE & FINANCE				
	How To Give Exceptional Customer Service	\$299.95	\$6.00	
	How Buyers Like To Be Sold	\$199.95	\$6.00	
	Developing A Customer Retention Program	\$199.95	\$6.00	
	Finance For Nonfinancial Professionals	\$249.95	\$6.00	
	How To Write A Winning Proposal	\$149.95	\$6.00	
	Practical Budgeting Skills For Managers	\$249.95	\$6.00	
BUSINESS & PERSONAL SUCCESS				
	Sales LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows, 3-1/2 <input type="checkbox"/> h MAC	\$79.95	\$6.00	
	Business LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows, 3-1/2 <input type="checkbox"/> MAC	\$79.95	\$6.00	
	Personal LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows, 3-1/2 <input type="checkbox"/> MAC	\$79.95	\$6.00	
SUBTOTAL				
Orders outside the U.S.A. and Canada add \$25.00 per product for shipping/handling				
CA, DC, GA, KS, KY, MD, MN, MS, ND, NE, TX, SALES TAX				
TOTAL				

Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Picture Of Success

By Sharon Nelton

If you're a customer of Tempe Camera Repair, Inc., you don't want to have a little "F" by your name in the company's computer. It means "this customer has failed," says Joseph Wojcich, founder of the company in Tempe, Ariz. Then Wojcich laughs in a way that lets you know laughter comes easily to him.

An "F" by a customer's name signals to an employee that this is a problem customer—someone, for example, who might rent expensive equipment, break it, then return it with the claim that it was already broken when it was picked up.

Employees take extra care with such customers, making sure all the paperwork is done correctly and signed and that the customer inspects the equipment and agrees it's in working condition before taking it out of the store.

But Tempe Camera Repair has an "A" list of customers, too. "They're a joy," says Wojcich (pronounced Wo-chick). "We bend over backward for them."

Most camera-repair shops are one- or two-person operations. What makes Tempe Camera Repair unusual is that it has 40 employees and more than \$5 million in annual sales and just keeps growing. Wojcich's success has been such that in 1994 he was named Arizona Small Business Person of the Year by the U.S. Small Business Administration.

His achievements have not been the result of an easy start in life. His family ended up in a displaced-persons camp in southern Germany after World War II. They came to the United States when Wo-

jcich was 5, and he grew up in Newark, N.J. After a stint in the Air Force, he went to Phoenix to live because he had friends there.

In 1970, Wojcich, a college student in need of money to supplement his GI Bill payments, got a job in the shipping-and-re-

cated then as they are now. He would take apart a broken camera and a model like it that worked, comparing them until he figured out how to fix the broken one.

He became so confident of his abilities that he opened his own shop in 1972, renting 500 square feet of space in Tempe.

Today, Tempe Camera Repair, whose customers include professional and amateur photographers, is headquartered in a 10,000-square-foot building that Wojcich owns. The business encompasses not only camera repair but also a rental department, a photo-finishing division, a retail store, and

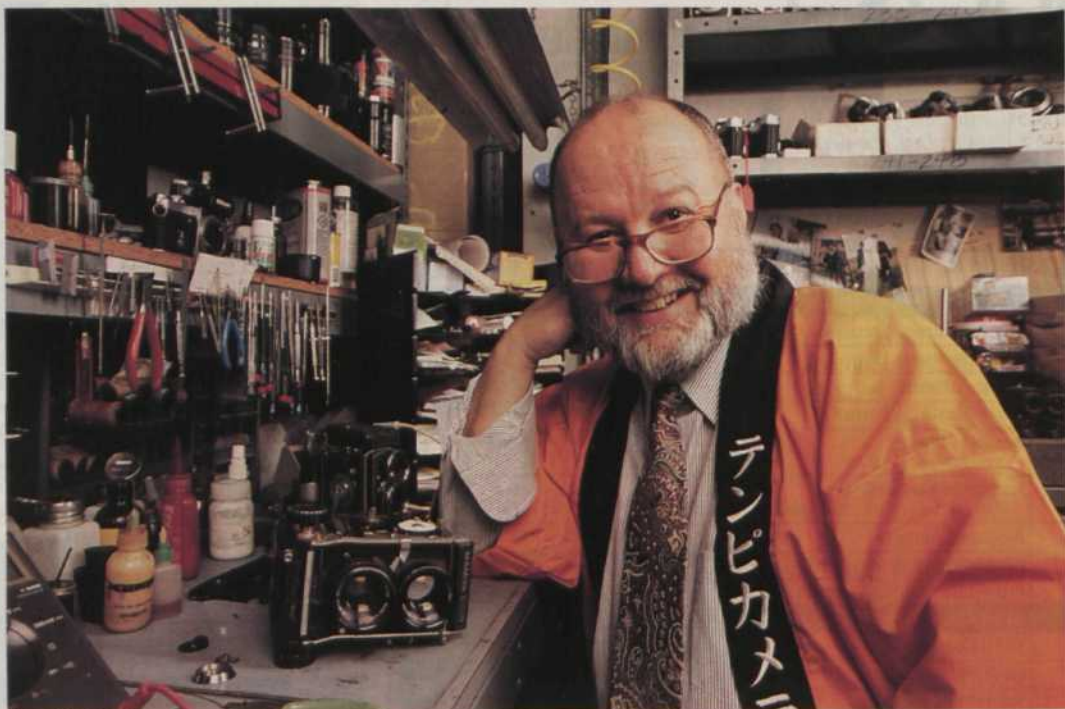


PHOTO: EDON STEVENSON

Despite the fact that his camera-services shop has grown into a \$5 million-plus operation, Joseph Wojcich still has his own workbench to do some repairs himself

ceiving department of a local camera store. Six months later he was repairing cameras—not because he had any training in camera repair but because the repairman had quit and there was no one to replace him.

"I'm pretty much self-taught," says Wojcich, 51, who describes himself as having a "good mechanical aptitude." And, he recalls, cameras weren't nearly as sophisti-

an industrial-sales division that serves large clients, such as the local offices of Motorola, Inc., AlliedSignal, Inc., and General Motors Corp. Wojcich says the rental division, which specializes in expensive equipment that most customers can't afford to buy, is the most profitable.

The repair side of the business is marketed almost entirely by word-of-mouth. "It's like a good auto mechanic," says Wo-

Wojcich. "You find a good auto mechanic, you go back."

Cameras and photographic equipment have changed a lot since Wojcich got into the business more than 25 years ago. Today, for example, you can capture an image on a digital camera, download it into a laptop computer, and fax it instantly to someone across the country.

How does he keep up with the new cameras? "Read the book. Take 'em apart. Look and see what they've got," he says. "If I don't understand them, I call up the manufacturer." In addition, he and his employees attend seminars offered by the major camera makers.

One of the company's employees is assigned to quality control and checks every

repaired camera before it goes back to the customer. "Even a camera I repair has to go to his desk for final approval because I still make mistakes. We all do," says Wojcich.

It might seem a little odd that the president of a \$5 million company has his own workbench and still repairs some cameras himself, but Wojcich says: "I love it. It's my therapy."

Batteries Are Included

By Nancy Bearden Henderson

Joe Ferguson has just returned to his office in Chattanooga, Tenn., from a meeting with Egyptian leaders in Cairo, where—as he shows with a photo—pollution dims the skyline like a thick, gray fog. Today he will host 28 visitors from the Albuquerque (N.M.) Chamber of Commerce, speak to a roomful of city officials from Kobe, Japan, and field questions from electric-power-research consultants.

All these people want to know how this slow-talking entrepreneur pioneered the nation's top-producing electric-bus company, Advanced Vehicle Systems (AVS).

In late 1990, after selling his thriving gas-burner-manufacturing business and taking early retirement, Ferguson found himself "climbing the walls," he says. "And that's when CARTA came along."

The chairman of CARTA—the Chattanooga Area Regional Transportation Authority—had heard of Ferguson's manufacturing expertise and offered him an unusual challenge. The city's mayor was seeking a new way to shuttle tourists through the downtown waterfront district—without the pollution, noise, and smell of diesel buses. Would Ferguson help find an alternative?

What began as a six-week consulting job turned into a quest that lasted a year. Ferguson discovered that U.S. experimentation with electric-bus technology had produced little more than a few clunky diesel models converted to battery power.

He considered ordering CARTA's buses from a Bavarian company that made battery-powered vehicles. "But just to ship one chassis over here was going to be way too expensive." So when CARTA board members asked if Ferguson would be willing to build the vehicles locally, he quickly replied, "Heck, yeah."

Just before Christmas 1992, using his own capital, Ferguson bought a 15,000-square-foot building near downtown Chattanooga and formed AVS with five employees, including himself and his wife, Virginia. Two months later, the material



PHOTO: ©STEPHEN ALVAREZ

Building electric buses for the Chattanooga, Tenn., waterfront tourist district and other locations provides a charge for Joe Ferguson of Advanced Vehicle Systems.

was cut for the first 22-foot, 22-passenger electric bus.

Because electric-vehicle assembly isn't taught in most colleges or trade schools, Ferguson and his workers often relied on trial and error. Initially, the batteries lasted only a few miles before needing a recharge. (They now can go eight hours between charges.) And parts—from drive trains to propulsion systems—were in short supply.

Now, for parts suppliers, "we've basically gone to small, entrepreneurial companies,

like ourselves, that have to live or die on what they do rather than just have a little R&D group on the side," says Ferguson, 63.

Since the first bus hit the streets of Chattanooga five years ago, Ferguson's company has sold fleets to public-transit organizations across the eastern United States, from Birmingham, Ala., to Burlington, Vt.

AVS also has built buses for Boston's Logan Airport and for the National Park Service for use at Cape Cod National Seashore. During a 1997 summit of Central American leaders, President Clinton and the first lady toured a rain forest in Costa Rica in one of 15 AVS buses purchased by that country's government.

According to the Atlanta-based Southern Coalition for Advanced Transportation—one of six coalitions in the United States responsible for developing transportation alternatives—AVS has outproduced all other electric-bus makers in the country and is the nation's largest manufacturer of electric mass-transit vehicles.

The vehicles offer many advantages over their diesel counterparts, says Ferguson. They're clean, quiet, virtually vibration-free, and—because of their low floors and accessible wheelchair ramps—convenient for seniors and people with disabilities.

This year, AVS, which has 35 employees, expects to sell about 50 electric buses—whose base prices average about \$200,000—and gross \$10 million.

"Every once in a while, I kind of pinch myself," Ferguson says. "It's not been easy, but I am extremely proud of the product we're producing now. Its time has come."

Nancy Bearden Henderson is a freelance writer in Chattanooga, Tenn., and often rides its free electric shuttle buses.

A Segue Into Publishing

By Sharon Nelton

Although he had enjoyed success as a violinist and a symphony conductor, Ben Dominitz says that in the early 1980s he came to a realization about himself: "The urge to be an entrepreneur—to control my destiny and build a company—was even more powerful than the urge to be a musician."

That seed of desire has since grown into Prima Publishing, launched in 1984 and now one of the largest independently owned book publishers in the United States. Although Dominitz, 48, won't reveal exact sales figures, he says revenues this year will be "well in excess of \$50 million." The company, based in Rocklin, Calif., northeast of Sacramento, publishes 250 to 300 titles a year and has more than 150 employees.

Its all-time biggest seller is *Myst: The Official Strategy Guide*, with more than a million copies sold to fans of the popular computer game. Due out later this summer is *The Clinton Syndrome*, subtitled *The President and the Self-Destructive Nature of Sexual Addiction*.

It is not a "get-Clinton book," says Dominitz. He describes the author, Jerome D. Levin of the New School for Social Research in New York City, as a "liberal psychologist" who voted for Clinton twice. "He provides an analysis that explains why this seemingly very intelligent man is so out of control in some aspects of his life. We believe that's exactly what people want to understand. They don't want to hear every gruesome detail; they just want to understand why."

Born in Israel, Dominitz came to the United States with family members at age 13 to study at The Juilliard School in New York City, where he had a scholarship to a pre-college program for promising musicians. He continued his music studies at the University of Cincinnati.

Dominitz was first violinist with the Sacramento Symphony String Quartet when he and his wife, Nancy, also a mu-

sician, decided to start Prima. They began by writing and self-publishing *Travel Free*, a book on running a home-based travel business. With a combination of direct marketing, advertising, and contacts with travel agencies, they sold more than 30,000 copies.

Impressed with that small but substantial triumph, Tyler G. Hicks, a successful author of how-to business books, offered the fledgling company the right to reprint two of his books: *How To Start Your Own*

key is to move forward and to keep looking for signs and guideposts. And certain patterns begin to emerge, certain things begin to become clear. And that's more of the kind of visionary, if you will, that I am."

Dominitz believes that several factors give Prima an edge over more-traditional book publishers. First, he says, the company has created a technology system to produce books more efficiently. Prima also is determined to choose topics that it thinks the public wants to know about and to go after authors to write about those topics rather than wait for authors and agents to contact Prima. And finally, he says, Prima has the ability, once a manuscript is in hand, to produce a book within four months rather than the typical industry rate of one to three years.

Prima, which began as a home business, now occupies 35,000 square feet in an industrial park. It publishes in four major areas: computers and technology, lifestyles, health, and entertainment—the latter featuring computer- and video-game guides. Three years ago Prima acquired a book-packaging and production company, now known as Prima Creative Services, in the United Kingdom.

Prima's books are distributed through the Random House Distribution Center in Westminster, Md., and are available through bookstores nationwide, including the major online bookstores. Of the trend toward selling books on the Internet, Dominitz says, "I think it's wonderful."

Having chosen to look after the couple's two sons, ages 8 and 10, full time, Nancy Dominitz no longer works in the company but is still on the board of directors.

Ben Dominitz is convinced that Prima will become a "major player" in the book industry. If it does, it will be attributable largely to the fact that he is never satisfied with his accomplishments and is always striving to be the best.

Those attitudes stem at least in part from his background as a musician, Dominitz explains. "You always practice to get better. So it's very hard for me to work with people who say, 'Well, it's good enough, isn't it?' I can't imagine anything that's ever good enough."



PHOTO: OXFORD MERTZ

The drive that enabled Ben Dominitz to become an accomplished musician later helped him orchestrate his successful book-publishing business.

Business on a Shoestring and Make Up to \$500,000 a Year and How To Build Real Estate Riches. "It was a very nice couple of books to have, and they were instrumental in getting us going," says Dominitz.

Dominitz says he wants Prima "to be able to respond and react to opportunities and anticipate things but not necessarily to know which ones they're going to be."

Some people are said to be able to envision 20 years ahead. "I'm not like that," says Dominitz. "I'm more like the person who drives a car at night with the lights on. The more I drive, the further out I see. But the

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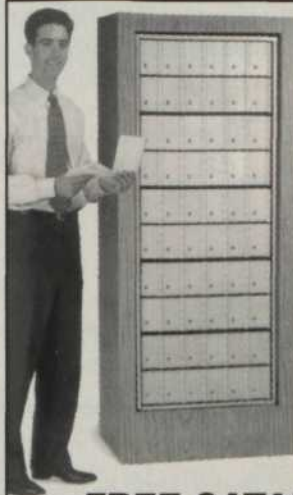


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Editorial

Tobacco Bill Deserves To Be Extinguished

Legislation on the subject of smoking, which the Senate took up in mid-May, has ramifications far beyond its stated purpose.

Senate Bill 1415 would increase federal revenues by hundreds of billions of dollars, largely at the expense of those in the lowest income categories. It would give trial lawyers billions of dollars in fees that would help finance, among other things, their political vendetta against tort-system reforms that would benefit all Americans.

The bill would drastically weaken hard-won First Amendment protection for commercial speech. And it would raise the specter of similar tax, regulatory, and other repressive actions against additional industries that might incur disfavor.

Senate Bill 1415 probably would do little, however, to achieve its purported principal goal—a substantial reduction in smoking by young people. In fact, it could lead to their smoking more.

Estimates of total additional government revenue as a result of the measure range from \$500 billion to more than \$800 billion over the next 25 years.

The bill would raise cigarette taxes by \$1.10 a pack over five years. Sen. John Ashcroft, R-Mo., declared during debate that "this is a massive tax increase on low-income families ... 59.4 percent of this tax increase will come from people who make less than \$30,000 a year."

A report by Congress' Joint Committee on Taxation says that the effective tax rate for individuals who earn less

than \$10,000 a year and now pay minimal taxes would go up 45 percent under the measure. Annual tax payments of those in lower income brackets would be substantially higher with the tobacco levy than without it. (See the chart.)

Ironically, the proposed tax increases raise a very real threat of boosting underage smoking by creating black markets in which sellers offer lower prices and are not apt to ask for proof of a customer's age.

More-rigorous enforcement of laws designed to keep tobacco products away from minors would be a far more effective solution and would avoid the many downsides of the pending legislation.

That is the course advocated by major business organizations. Their view is summed up by Bruce Josten, executive vice president for government affairs at the U.S. Chamber of Commerce.

"Business wants to address the serious problem of teen smoking," Josten says. "But we will not support legislation that uses this issue as a smoke screen to increase taxes, create additional federal bureaucracies, infringe personal liberties, and open the floodgates to restrictions on other legal industries."

As the public became more aware of the actual content of this bill, support for it began eroding, and at press time its prospects for Senate approval had become uncertain.

Members of Congress should recognize the legitimate concerns surrounding this measure as valid reasons why it does not warrant their support.

The Skewed Impact Of Higher Tobacco Taxes

Here's how much the proposed tobacco tax increase would raise smokers' federal taxes.

Annual Income*	1999	2001	2003
Under \$10,000	34.5%	37.5%	44.6%
\$10,000 - \$19,999	8.2	9.7	12.3
\$20,000 - \$29,999	3.6	4.2	5.4
\$30,000 - \$39,999	2.4	2.8	3.3
\$40,000 - \$49,999	1.5	1.8	2.2
\$50,000 - \$74,999	1.1	1.2	1.5
\$75,000 - \$99,999	0.5	0.6	0.7
\$100,000 - \$200,000	**	0.1	0.1
\$200,000+	**	**	**

* Adjusted gross income plus allocations that include various employer-paid benefits.

** Less than 0.005 percent.





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WHAT'S HOT

IRS Reform Advances



The U.S. Chamber is winning in its campaign to reform the IRS. See update, Page 2A.

Youth Hiring Drive



It's not too late to join an important work-force training drive by hiring one or more young people for the summer. Details, Page 3A.

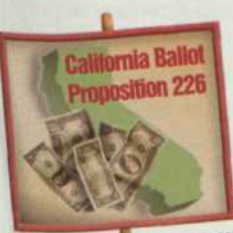
Recent Court Victories



The Chamber sealed legal victories for business on environmental lawsuits, clean-water permits, and benefit require-

ments for temporary workers. Details, Page 6A.

Measure Falls Short



Following a highly deceptive union ad campaign, California voters narrowly rejected a measure to prohibit

unions from using members' dues for political purposes without workers' express consent. Business now needs to gear up for future battles. See story, Page 2A.

Fight On Regulations

Recent Win Could Help Slow Mandates

The U.S. Chamber of Commerce made steady gains last month in its fight to reduce government red tape, paperwork, and mandates.

Its latest victory was House passage of the Mandates Information Act on May 13. The vote was 279-132.

The bill would require the Congressional Budget Office (CBO) to provide information to Congress on the impact of proposed mandates on the private sector.

The CBO also would be required to estimate the impact of a bill's mandates on consumer prices, workers' wages, job opportunities, and small-business hiring, expansion, and profitability.

How The Bill Would Work

The legislation would allow a single lawmaker to stop—through a point-of-order motion—the House or Senate from considering any bill with a provision or amendment that would cost the private sector \$100 million or more annually, as determined by the CBO analysis. Any bill that was not accompanied by the CBO analysis could be stopped the same way.

If any provision exceeding the \$100 million threshold were added to legislation during a conference committee, the measure would again be subject to a point-of-order motion.

Conference panels are formed to work out differences between competing bills passed by the House and Senate.

A majority vote by the House or Senate would be required to continue considering a bill.

The Chamber sees the House's approval of the mandates bill as an important step in the business federation's efforts to make Congress more accountable for the government mandates it imposes on business. It is working for passage of a similar bill in the Senate.

The federal regulatory system now costs American taxpayers nearly \$700 billion annually, according to the Center for the Study of American Business at Washington University in St. Louis.

And, says Bruce Josten, the Chamber's executive vice president for government affairs: "Small businesses find it frustrating that Washington doesn't seem to understand that federal mandates cost not only money for compliance but also time spent figuring out how to comply."

The Regulatory Process

In other action to reform the regulatory process, the Chamber is pressing the Senate to approve the Regulatory Improvement Act, which would

Continued On Page 7A





Drive To Reform IRS Advances

The U.S. Chamber scored what it hopes will be the first of several tax victories this year when the Senate approved legislation in early May to restructure the Internal Revenue Service.

Negotiators for the Senate and the House, which passed a similar bill in November, will work out differences in their measures in the coming weeks.

Both bills would:

- Allow taxpayers to recover civil damages if a federal court ruled that the IRS recklessly and intentionally violated the law or engaged in unauthorized, improper, or erroneous collection actions.

- Make it easier for taxpayers to recover legal fees incurred in litigating disputes with the IRS.

- Give the agency's taxpayer advocate more power to speak for taxpayers and take actions on their behalf.

- Create an independent board to oversee the IRS. A majority of the board's members, appointed by the president and confirmed by the Senate, would be from the private sector.



One key difference in the measures centers on scaling back penalties and fines that the IRS can impose; the

Senate calls for larger cuts than does the House.

The legislation, titled the Internal Revenue Service Restructuring and Reform Act, was approved 426-4 in the House and 97-0 in the Senate.

On other tax matters, the Chamber is urging House and Senate lawmakers to extend several tax credits due to expire June 30. They include the research-and-experimentation credit, which is based on a percentage of R&E spending over a base amount, and the Work Opportunities Tax Credit, granted to companies that hire certain disadvantaged youth.

Funding For Roads, Mass Transit Moves Closer To Reality

The nation's transportation infrastructure will get a major infusion of money as a result of the U.S. Chamber's latest victory on highway and mass-transit legislation approved by Congress.

The win came in late May, when the House and Senate both passed a compromise version of legislation reauthorizing the Intermodal Surface Transportation Efficiency Act (ISTEA) for at least \$200 billion over six years. President Clinton is expected to sign the bill soon.

The measure sets transportation priorities and requests spending to meet those needs. The funding will result when Congress approves a transportation appropriations bill in line with the measure just passed.

The compromise bill, known as the Transportation Equity Act for the 21st Century (TEA 21), was the product of a House-Senate conference committee, which worked out differences between measures approved in the

House and Senate this spring.

The legislation authorizes funding for construction and repair of highways and bridges, mass-transit projects, and highway safety and transportation research. At least \$167 billion will be spent on highways.



The U.S. Department of Transportation has identified \$450 billion in capital needs for highways, mass transit, airports, and waterways.

In addition, the measure would require that all money collected for the federal Highway Trust Fund be spent on transportation needs and not used for other government programs.

Union-Dues Initiative Falls Short

Barraged by a highly deceptive union ad campaign, California voters narrowly rejected a ballot proposition to prohibit labor unions from using members' dues for political purposes without the workers' express consent.

The U.S. Chamber and other organizations that backed the proposition noted that the vote was a setback for union workers and business.

The California Campaign Reform Initiative, which was defeated by a margin of 53 percent to 47 percent in the June 2 vote, would have barred labor unions from using any portion of a member's dues for political purposes

without annual written authorization from the member.

The Chamber saw the measure not only as a way to protect the paychecks of union employees but also as a means of curbing the political activities of powerful state and national labor groups.

Organized labor spent an estimated \$20 million to defeat the initiative.

Despite the loss in California, the Chamber is urging voters in other states to approve paycheck-protection initiatives. Measures are expected to be on the ballots in Arizona, Colorado, Nevada, and Oregon on Nov. 3—Election Day. Similar measures are before about 30 state legislatures.



CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

THOMAS J. DONOHUE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
PHONE (202) 463-5300; FAX (202) 463-5327

Dear U.S. Chamber Member:

Hard as it is to believe, America is running out of quality workers at all skill levels. Unless we address this challenge now, small and large business owners alike will face severe operational and productivity problems in the coming years.

The answer is not easy, but it is clear: Tap into and develop the tremendous pool of potentially outstanding future employees—namely, America's young people.

As you may have read in the June edition of *Nation's Business* magazine, the U.S. Chamber of Commerce has made a commitment to Gen. Colin Powell, chairman of America's Promise—The Alliance for Youth, to urge Chamber members to offer 3 million young people paid summer jobs. That's one job for every company belonging to a local or state chamber or the national Chamber.

Research tells us that young people who are exposed to the world of work and who develop interest and commitment to a work ethic increase their chances for professional success later in life.

Why did we make this pledge to Gen. Powell? Because business must do more than simply complain about the lack of quality workers and the poor state of our educational system. We must embrace practical approaches to these challenges.

By offering at least one high-school student from your community a paid summer job, you will be helping your company and your country now and in the future. You will also be giving a young American, and his or her family, two of life's most precious commodities—hope and opportunity.

For further information, please contact America's Promise—(703) 684-4500—or either of us. We want you to know how seriously we are taking this challenge. Both of our offices are hiring young people during the summer. Won't you?

With thanks,

Thomas J. Donohue
President and CEO
U.S. Chamber of Commerce

Peter Gallagher
President and CEO
America's Promise—The Alliance for Youth



Chamber To Publish Surveys, Resource Directory On Drug Abuse

Noting that annual productivity losses from substance abuse average \$640 per American worker, U.S. Chamber President and CEO Thomas J. Donohue recently told a House panel that the Chamber will undertake several initiatives to combat illicit drug use.

One step, he told the House Small Business Subcommittee on Empowerment, will be to conduct a survey to determine the prevalence and extent of policies and programs among companies and state and local chambers of commerce that are aimed at combating workplace substance abuse and crime.

The Chamber, Donohue said, will also:

- Highlight the effective substance-abuse programs of companies and chambers.

- Ask state and local chambers to join a nationwide drug-free-workplace campaign.

- Study the costs of substance abuse with the Center on Addiction and Substance Abuse, an affiliate of Columbia University in New York City.

- Use the results of its surveys to develop "achievable strategies for eliminating substance abuse in the workplace."

- Produce a resource directory from information gathered to help companies and organizations set

up substance-abuse programs.

On the legislative front, Donohue emphasized the Chamber's support for the Drug-Free Workplace Act, a House bill that would offer financial incentives and technical assistance to small businesses to create drug-free workplaces.



PHOTO: T. MICHAEL KEZA

Donohue wants to help firms fight drug abuse.



Push Is On For Skilled Immigrants

"Help companies find the workers they need" is one of the messages the U.S.

Chamber has been pushing on Capitol Hill, and the message has been delivered with greater urgency in recent weeks.

In early May, a new threat to companies' ability to find highly skilled employees developed when the number of immigrants entering the United States to fill specialty jobs reached the legal cap for fiscal 1998. The fiscal year does not end until Sept. 30.

The Chamber is urging the House to follow the Senate's lead in approving legislation to increase the number of visas for foreign specialty-occupation workers.

The Senate bill passed on May 18 would raise to 95,000 from 65,000 the allotment of such visas—designated H-1B visas—for fiscal 1998. It would also increase these visas to 105,000 for each of the next four fiscal years.

H-1B visas are designed to enable U.S. companies to hire foreign professionals for up to six years.

Like the Senate bill, the House bill would raise the number of H-1B visas to 95,000 for fiscal 1998. But the House bill would impose mandates on employers applying for such visas, including time-consuming and costly labor-market tests. It also would expand the U.S. Labor Department's authority over the H-1B program.

The Chamber is urging representatives to drop the provisions that would pose problems for employers and simply raise the cap on H-1B visas to 95,000 for 1998 so that companies can hire the workers they need.

New Communications Era Begins

In its first cybercast, the U.S. Chamber broadcast live over the Internet a conference it hosted on a United Nations treaty on global climate change.

The May 18 event focused on the treaty's implications for U.S. sovereignty and security. Featured participants included former U.S. Secretary of State Lawrence Eagleburger; James Schlesinger, former secretary of the Defense and Energy departments; former Assistant Secretary of Defense Frank J. Gaffney; Sen. Chuck Hagel, R-Neb.; and Rep. David McIntosh, R-Ind.

The conference's video and audio feeds could be downloaded in real time to any computer with a modem.

A recorded version of the conference,

plus information about the global climate treaty, is available by going to the conference site on the Internet at www.climate treaty.com.

The U.N. climate treaty was signed by the United States and more than 160 other countries in December in Kyoto, Japan.

The treaty sets targets and timetables for those nations to reduce greenhouse-gas emissions. Some scientists blame these emissions for rising global temperatures.

The Chamber has criticized the treaty, which Congress must ratify, because it does not include developing countries that, according to the International Energy Association, soon are expected to account for a majority of the world's greenhouse-gas emissions.





Chamber Lobbying Key Bills

Numerous bills that could affect businesses are being lobbied and monitored by the U.S. Chamber. Here's a partial rundown:

↑ Internet Tax Ban

The Chamber is backing proposals to prevent state and local governments from imposing new taxes on commerce conducted over the Internet.

The Senate bill (S. 442) calls for a six-year moratorium and prohibits states and localities that currently tax Internet transactions from collecting the taxes during that period. The House measure (H.R. 3849) would impose a three-year ban but would allow existing Internet taxes to remain in place.

↓ Trade Sanctions

The Chamber is opposing legislation (H.R. 2431 and S. 772) that would impose U.S. trade sanctions on countries that allow or take part in the persecution of religious minorities.

Targeting persecution is a laudable goal, says the Chamber; but unilateral economic sanctions, it notes, would do more harm than good for persecuted people. Many international religious organizations and religious minorities are also opposing the legislation.

The House passed its measure in mid-May; the Senate has yet to vote on its bill.

↑ Dispute Resolution Act

A Chamber-backed bill (H.R. 3528) approved by the House in late April would require parties filing civil-litigation cases in federal court to consider alternative means of resolving their disputes before their cases would go to trial. Such means could include mediation, neutral evaluation, and arbitration.

The Senate is expected to consider the House bill, but the timing for that action is uncertain.

↓ Health-Care Liability

Pending House and Senate measures (H.R. 1415 and S. 644) opposed by the

Chamber would impose numerous health-care mandates on employers and extend medical-malpractice liability to include employers and health-plan providers. Neither house of Congress has taken action on the bills.

↑ Product-Liability Reform

A Chamber-backed bill (S. 648) pending in the Senate would, among other provisions, limit the liability of retailers and wholesalers for the sale of defective products and limit small firms' liability for punitive damages.

Congressional proponents of a uniform federal product-liability law are continuing to negotiate with the Clinton administration to come up with a measure that can be approved this year. A compromise bill is likely to be introduced soon in the Senate; a bill has yet to be introduced in the House.

↑ Employer Protections

Chamber-supported legislation (H.R. 3246) approved by the House would protect employers from certain tactics used by labor unions in trying to organize workers.

The measure also would require the National Labor Relations Board, which administers the country's labor laws, to be more responsive to small businesses—and labor unions—when considering labor-law complaints.

The Chamber is urging the Senate to take action on separate bills that, combined, are similar to the House measure.

↑ Retirement Security

A Chamber-supported bill (H.R. 3788) introduced in the House in early May would make certain pension-law changes. The measure would, among other things, increase the annual amount employees could contribute to qualified retirement plans and would allow workers who change jobs to roll over retirement savings into different types of plans. The Chamber is working to get a bill introduced in the Senate.

Tobacco Tax Sets Bad Precedent

Calling it a dangerous precedent for other industries that might fall out of political favor, the U.S. Chamber is fighting legislation that would increase taxes on tobacco by more than \$500 billion over 25 years.

"Who's next?" asks Bruce Josten, the Chamber's executive vice president for government affairs, referring to the massive tax hike. The Chamber says

Who's Next?

that other industries, such as distilled spirits, gambling, and even fast food, could be targeted next. The organization is asking its members to urge their lawmakers to oppose the measure, now being considered by the Senate.

Titled the National Tobacco Policy and Youth Smoking Reduction Act, the bill would impose a tax of \$1.10 per pack over five years on cigarette manufacturers. The bill requires that the tax be passed on to consumers.

Among its efforts to defeat the measure, the Chamber sponsored a television advertising campaign in May, noting that the bill would raise taxes on 45 million working Americans, most of whom earn less than \$30,000 a year.

Much of the tax revenue the bill would generate, says the Chamber, would be used not to reduce youth smoking but for spending on other government programs and for paying the fees of trial lawyers involved in tobacco cases.

The bill also would create numerous new federal regulatory offices.

Members of Congress can be reached by dialing (202) 224-3121.

Chamber Wins Three Key Business Cases

The U.S. Chamber scored three important victories for business in the courts recently.

The Chamber's legal affiliate, the National Chamber Litigation Center (NCLC), filed friend-of-the-court briefs on behalf of business in these cases:

Citizen Environmental Suits

In *The Steel Co. vs. Citizens For A Better Environment*, the U.S. Supreme Court ruled that a company cannot be sued by a private party for past violations of a federal environmental law if the problems have been corrected.

The high court agreed with the NCLC's position in overturning a lower court ruling against The Steel Co., of Chicago. The lower court had ruled in favor of the Chicago-based Citizens For A Better Environment after it sued The Steel Co. for failure to submit paperwork that is required under the federal Emergency Planning and Community Right-to-Know Act (EPCRA).

But the law requires that citizens groups provide at least 60 days' notice of intent to sue to enforce the act, and The Steel Co. had completed and filed the required paperwork before the environmental group filed its suit.

Said the NCLC: "The plain language of the EPCRA citizen suit provision establishes that Congress intended to limit such suits to cases of ongoing failures to 'complete and file' the requisite reports." The Supreme Court agreed

and said that the environmental group suffered no harm.

EPA's Linkage Of Laws

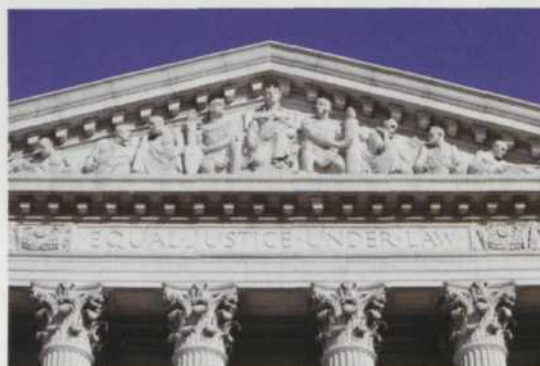
In *American Forest & Paper Association vs. EPA*, a U.S. appeals court ruled that the U.S. Environmental Protection Agency has no authority to force a state

The EPA maintained that approval of state programs is a federal action that allows the U.S. Fish and Wildlife Service to approve or deny individual permits based on compliance with the species statute.

The NCLC pointed out in a brief to the 5th U.S. Circuit Court of Appeals in

New Orleans—and to the 10th U.S. Circuit Court of Appeals in Denver in a separate case—that neither the Clean Water Act nor the EPA's regulations refer in any way to the Endangered Species Act.

Allowing the EPA to link requirements of the Endangered Species Act with approval of state clean-water programs would have directly affected every commercial, industrial, and municipal entity that is required to have a state-issued clean-water permit, said



The Chamber is increasing its legal-related activities inside and outside the courts on behalf of business.

to abide by one federal statute when the state is seeking approval of its programs under a separate federal law.

The case stemmed from an EPA requirement that states comply with rules of the federal Endangered Species Act. The agency said states must do so as a condition for getting EPA approval of their programs under the federal Clean Water Act.

Under state clean-water programs, permits are issued to allow applicants to make discharges into bodies of water.

the Chamber's legal center.

Temporary-Worker Benefits

An employer is not required to include temporary employees in the company's pension plan, ruled the U.S. Court of Appeals for the 10th Circuit in Denver in siding with the NCLC.

In *Bronk vs. Mountain States Telephone & Telegraph, Inc.*, the court said that the federal Employee Retirement Income Security Act (ERISA) of 1974 does not require an employer to include in its pension plan all workers on its payroll.

The NCLC had argued in its brief—and the circuit court agreed—that, under ERISA, pension plans may exclude employees based on employment classification, such as whether workers are temporary or leased or part of a collective-bargaining agreement.

In the case, Mountain States, doing business as U S West Communications, denied pension coverage to Clay Bronk and several other leased workers who performed services for the company.

Political Programs Gear Up

With the critical midterm elections scheduled for Nov. 3, the U.S. Chamber has turned up the heat on its political programs.

The programs are aimed at maintaining a pro-business majority in Congress and defeating efforts by organized labor, radical environmentalists, and trial lawyers to win back the legislature for lawmakers who favor more regula-

tions, bigger government, and higher taxes.

The centerpiece of the Chamber's efforts is its revamped political action committee—the National Chamber Alliance for Politics (NCAP).

The alliance recently mailed letters to U.S. Chamber members asking for their support to help elect pro-business candidates to Congress.

Chamber Hits OSHA's Attempt To Bypass Regulatory Process

In its continuing effort to rein in the Occupational Safety and Health Administration (OSHA), the U.S. Chamber testified before a congressional panel on the agency's Cooperative Compliance Program.

Under the program, which was set to begin last January, businesses would "voluntarily" participate or face mandatory health and safety inspections. The program would require companies to meet new workplace standards that were never approved through the regulatory process, including public-notice and comment periods.

The Chamber filed suit against OSHA in the U.S. Court of Appeals for the District of Columbia Circuit, which temporarily blocked the program on Feb. 17. A final ruling is not expected until early next year.

Baruch A. Fellner, a partner with the law firm Gibson, Dunn & Crutcher LLP in Washington, testified on behalf of the Chamber in early May before the



PHOTO: T. MICHAEL KEZA

U.S. Chamber witness Baruch A. Fellner criticized OSHA's regulatory policies.

House Education and the Workforce Subcommittee on Oversight and Investigation. He explained that "business had a Hobson's choice between certain inspection and open-ended regulation without notice and comment. Such a choice punctures any pretense that the program was 'cooperative.'"

Regulatory-Reform Efforts Advance

Continued From Page 1A

require federal agencies to weigh the impact of new rules they plan to issue.

They would have to conduct regulatory studies, including cost-benefit analyses and, if relevant, risk assessments, before they could issue "major" regulations.

The bill defines major rules as those costing more than \$100 million or that the White House Office of Management and Budget determines will have a "significant impact" on the economy.

Costs, Benefits Considered

The regulatory analyses would have to include the expected costs and benefits of proposed rules and any reasonable alternatives to the regulations.

For a major rule dealing with health, safety, or the environment, the analysis would have to include:

- A risk assessment and relevant information about the risk.
- The assumptions and estimates used in devising the rule.
- Scenarios of comparable risks.

Agencies that must act expeditiously to address an imminent threat to health, safety, or the environment would be exempt from these requirements.

Public Comments Required

In developing risk assessments, agencies would be required to allow public comment and participation. Independent peer review of cost-benefit analyses and risk assessments would also be mandatory.

A federal court could overturn a rule if the analyses were not conducted or if the rule, based on the entire rule-making record, were determined to be unreasonable.

Every five years, agencies would be required to identify existing rules that could be repealed or revised to increase the benefits to the public.

A bill similar to the Senate legislation has yet to be introduced in the House.

Job-Training Bill Benefits Business

Employers are almost certain to have more input into job-training programs now that both houses of Congress have passed legislation requiring business representatives to be included in groups developing state and local job-training programs.

A House-Senate conference committee is expected to work out minor differences in the coming weeks between a job-training bill

approved by the Senate in early May and one passed by the House last year.

The measures would consolidate dozens of federal job-training programs into block grants that would go to the states for use in setting up or improving

their job-training systems.

The bills call for the formation of statewide partnerships and local workforce-investment partnerships, with a majority of their representatives from business. The partnerships will establish criteria and standards for local job-training systems, create new training systems, and oversee the certification of job-training service providers.

The legislation allows state and local chambers of commerce and other business organizations to act as one-stop job-training centers where basic services, such as skills training, career counseling, and job banks, would be consolidated.



Here are some of the most important products, services, and programs offered by the U.S. Chamber.

Discounts On IBM Computers

U.S. Chamber members can receive rebates on the purchase of certain computers from IBM Corp.

Rebates are available on IBM's ThinkPad 380D, 380E, and 770 notebook computers; Commercial Desktop 300PL



and 300GL; and PC Server 325. To be eligible

for the rebates, computers must be purchased through an authorized IBM Business Partner by Dec. 31.

For more information about the rebate program or to locate an IBM Business Partner, call 1-800-426-7255, ext. 5101.

Free Seminars For Women In Business

Women business owners who want to become even more successful can tune in to free seminars on using leading-edge technology and finding creative ways to finance a business.

The seminars are sponsored by the U.S. Chamber; the U.S. Small Business Administration, IBM Corp., the Edward Jones investment company, the Service Corps of Retired Executives, and the American Business Women's Association.

They will air via satellite from 7:30 to 8:30 p.m. Eastern time on Sept. 2 and Nov. 16 at downlink sites across the country.

For more information about the seminars or to find the downlink site nearest you, call 1-800-441-1384.

Retirement Plans At A Discount

Affordable, accessible, and convenient retirement plans are available to U.S. Chamber members through the Chamber and Fidelity Investments.

The retirement plans—intended primarily for businesses employing fewer than 100 workers—include 401(k), Keogh, SEP-IRA, and SIMPLE (Savings Incentive Match

Plan for Employees). Fidelity provides investment-management and record-keeping services as well as materials that employers can use to communicate with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Recognition For Resilient Small Businesses

Applications are being accepted for the 1999 Blue Chip Enterprise Initiative award.

Each year the program recognizes small businesses that have surmounted challenges. It is co-sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber, and *Nation's Business* magazine.

Applications for the Blue Chip award can be obtained by calling the program's toll-free number; 1-800-FOR-BCEI (1-800-367-2234), or by sending an e-mail request to bluechip@nation'sbusiness.org. You can find out more about the Blue Chip program at www.nation'sbusiness.org/bluechip.html.



Small-Business Products Detailed In Free Catalog

A free catalog of products designed to help small businesses is available from the Chamber's Small Business Institute.

To receive the catalog, call 1-800-429-7724 or visit the institute's Web site at www.uscsbi.com.

Helping Businesses Find Qualified Workers

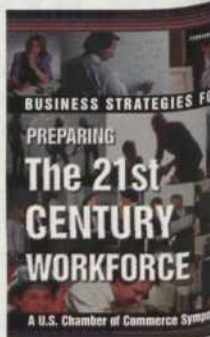
In a new publication from the U.S. Chamber, leaders from state and local chambers, business, and government provide solutions to the challenges employers face in preparing the work force for the 21st century.

Transcripts of a Chamber symposium on work-force preparation are available for \$35 plus \$2.75 for shipping and handling. The publication, *Business Strategies for*

Preparing The 21st Century Workforce, includes discussions on moving people from welfare to work, hiring people with disabilities, and finding qualified workers.

To order the publication, send a check payable to the U.S. Chamber of Commerce to: Federation Development, U.S.

Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000. For more information, call (202) 463-5548.



Free Materials Urging Employees To Vote

Members of the U.S. Chamber can receive free materials to help urge their employees to register and to vote in the Nov. 3 elections.

Materials include a poster, an envelope stuffer, and camera-ready artwork to produce materials aimed at getting out the vote. Participating companies and organizations will also receive a how-to manual for orga-

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U.S. Chamber of Commerce



nizing a registration, vote, and vote-by-absentee-ballot program.

To sign up for the program and receive free vote-promotion materials, visit the Chamber's Web site at www.uschamber.org or call its Office of Membership Grassroots Management at (202) 463-5604.

Airborne Express Discounts Available

U.S. Chamber members can save up to 43 percent on the cost of overnight shipments under a special arrangement between the Chamber and Airborne Express. Shipments can be made to nearly anywhere in the United States and to the more than 200 foreign destinations served by Airborne.

To obtain the special discount, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.



Fidelity Investments®